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2014-2015

June 2014

**ADDITIONAL
INFORMATION
ON THE FISCAL
MEASURES
OF THE BUDGET**



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Additional Information on the Fiscal Measures of the Budget

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1. ECONOMIC RECOVERY MEASURES

1.1 Reduced tax rate for manufacturing SMEs

The general corporate tax rate in Québec is 11.9%.

Moreover, Canadian-controlled private corporations with paid-up capital of \$10 million or less enjoy a tax rate reduction of 3.9 percentage points on the first \$500 000 of annual income – the small business income ceiling – from an eligible business,¹ such that the tax rate is reduced from 11.9% to 8% on this first \$500 000 of income.

To help Québec manufacturing small and medium-sized businesses (SMEs) become more competitive, they may benefit from an additional deduction of up to four percentage points from their tax rate.

The maximum additional deduction a manufacturing SME may claim will be two percentage points as of the day following the day of the budget speech and will rise to four percentage points as of April 1, 2015.

The additional deduction a manufacturing SME may claim for a taxation year will apply to the amount regarding which it benefits from the reduced tax rate of 8% for such taxation year.

The rate of this additional deduction a manufacturing SME may claim as of the day following the day of the budget speech will depend on the proportion of its activities that consist of manufacturing and processing activities.

Notion of manufacturing SME

The expression “manufacturing SME”, for a given taxation year, means a corporation at least 25% of whose activities consist of manufacturing and processing activities.

Two items will be considered in determining the proportion of a corporation’s activities attributable to manufacturing and processing activities: assets and labour. More specifically, the proportion of a corporation’s manufacturing and processing activities will be determined using the following formula:

$$\text{Proportion of manufacturing and processing activities} = \frac{\text{MPCC} + \text{MPLC}}{\text{CC} + \text{LC}}$$

Where:

- MPCC represents the manufacturing and processing capital cost;
- MPLC represents the manufacturing and processing labour cost;

1 It should be noted that the \$500 000 small business income ceiling gradually reduces for corporations with paid-up capital between \$10 million and \$15 million and becomes zero for corporations with paid-up capital of \$15 million or more.

- CC corresponds to the capital cost;
- LC corresponds to the labour cost.

Manufacturing and processing activities are those activities that, under the federal *Income Tax Regulations*,² constitute eligible activities for the purposes of determining manufacturing and processing profits.

Similarly, the notions of manufacturing and processing capital cost,³ manufacturing and processing labour cost,⁴ capital cost and labour cost will be defined according to the criteria used in the federal *Income Tax Regulations* for the purposes of determining manufacturing and processing profits.

□ Determination of the rate of the additional deduction

A manufacturing SME whose proportion of activities attributable to manufacturing and processing activities, for a given taxation year, is 50% or more, may benefit from the maximum additional deduction rate applicable for such taxation year.

Moreover, where such proportion, for a given taxation year, is between 50% and 25%, the additional deduction rate the manufacturing SME may claim, for such taxation year, will be reduced linearly. The allowed additional deduction rate will be equal to the rate determined by the following formula:

$$\text{Rate allowed} = 4\%⁵ \times \frac{(\text{PMPA} - 25\%)}{25\%}$$

In this formula, PMPA stands for the proportion of manufacturing and processing activities.

For example, a manufacturing SME, otherwise eligible for an additional deduction of four percentage points, whose proportion of activities attributable to manufacturing and processing activities is 40% may claim an additional deduction rate of 2.4%.⁶

2 C.R.C., c. 945.

3 Briefly, this item is equivalent to 100/85 of the portion of the capital cost that reflects the extent to which each property is used directly in the corporation's eligible manufacturing and processing activities during the year.

4 Briefly, this item is equivalent to 100/75 of the wages and salaries paid to employees for the time during which they were engaged directly in eligible manufacturing and processing activities and the portion of payments made to a third party that is included in the labour cost for services directly related to such eligible activities.

5 For illustration purposes, an applicable maximum additional deduction rate of 4% is used in this formula.

6 I.e.: $4\% \times ((40\% - 25\%) / 25\%) = 2.4\%$.

■ Application date

This additional deduction rate of two percentage points will apply regarding a taxation year ending after the day of the budget speech, while the additional deduction rate of four percentage points will apply to a taxation year ending after March 31, 2015. However, where the taxation year of a manufacturing SME includes the day of the budget speech or March 31, 2015, the additional deduction rate will apply in proportion to the number of days of such taxation year that follow the day of the budget speech or that follow March 31, 2015.

For example, the maximum rate of the additional deduction will be 1.1507%⁷ for a manufacturing SME with a taxation year corresponding to calendar year 2014 and 3.5069%⁸ for a manufacturing SME with a taxation year corresponding to calendar year 2015.

TABLE 1

Corporate tax rates in Québec (per cent)

	Current			After March 31, 2015		
	Manufacturing SME	SME	Other corporation	Manufacturing SME	SME	Other corporation
General tax rate	11.9	11.9	11.9	11.9	11.9	11.9
SME deduction	-3.9	-3.9		-3.9	-3.9	
SME tax rate	8.0	8.0		8.0	8.0	
Additional deduction for manufacturing SME				-4.0		
Manufacturing SME tax rate				4.0		

Note: The reductions in the tax rate take effect after the day of the budget speech and after March 31, 2015.

1.2 Additional deduction for transportation costs of remote manufacturing SMEs

To improve the competitiveness of remote manufacturing small and medium-sized enterprises (SMEs), Canadian-controlled private corporations whose paid-up capital is less than \$15 million may claim an additional deduction in calculating their net income to reflect the higher transportation costs attributable to the distance of certain regions from Québec's large urban centres.

Briefly, the amount of this additional deduction a corporation may claim for a taxation year will depend on a number of parameters, i.e. the region where it carries out its manufacturing activities, the level of its manufacturing activities, the size of the corporation, its gross income for such taxation year and a regional cap.

7 I.e.: $2\% \times (210 / 365) = 1.1507\%$.

8 I.e.: $(2\% \times (90 / 365)) + (4\% \times (275 / 365)) = 3.5069\%$.

The amount of this additional deduction, for a taxation year, may reach 6% of gross income for such taxation year.

□ **Determination of the rate of the additional deduction**

The rate of the additional deduction an eligible corporation may claim for a taxation year will depend, on the one hand, on the rate associated with the region in Québec where it carries out its manufacturing activities (“base rate”) and, on the other, on the level of its manufacturing activities.

■ **Applicable rate depending on the region**

The base rate a corporation may claim for a taxation year will depend on the region where its manufacturing activities are carried out.

Rates of 2%, 4% and 6% will apply to the “intermediate zone”, the “remote zone” and the “special remote zone” respectively.

For greater clarity, the rate applicable to other regions, in Québec or elsewhere, will be zero.

In general, the rate of the additional deduction applicable to a corporation for a taxation year will be the one applicable to the zone in which the “manufacturing and processing capital cost” (MPCC)⁹ is the highest for such taxation year.

■ **Intermediate zone**

The intermediate zone will consist of the territories included in the following administrative regions, regional county municipalities (RCMs), urban agglomerations or municipalities:

- Capitale-Nationale, except for the municipalities included in the Québec City metropolitan census region (MCR)¹⁰ and the Charlevoix-Est RCM;
- Chaudière-Appalaches, except for the municipalities included in the Québec City MCR;
- Lanaudière, except for the municipalities included in the Montréal MCR;
- Laurentides, except for the municipalities included in the Montréal MCR;
- Montérégie, except for the municipalities included in the Montréal MCR;
- Centre-du-Québec;

9 The notion of “manufacturing and processing capital cost” is the one used for the purposes of the reduction of the tax rate for manufacturing SMEs. In this context, see this subsection 1.1 for more details.

10 The municipalities included in MCRs are given in the 2011 *Standard Geographical Classification (SGC)* published by Statistics Canada. The list of municipalities included in the MCRs of Québec is given in: *Standard Geographical Classification (SGC)*, Volume 1, The Classification, 2011, no. 12-571-X in the catalogue, p. 107-127. It can be viewed on Statistics Canada’s website at www.statcan.gc.ca/pub/12-571-x/12-571-x2011001-eng.pdf.

- the western portion of Estrie, including the Ville de Sherbrooke and the Memphrémagog, Val-Saint-François, des Sources and Coaticook RCMs;
- the southern portion of Mauricie, including the cities of Trois-Rivières and Shawinigan as well as the Chenaux and Maskinongé RCMs;
- Papineau RCM (Outaouais).

- **Remote zone**

The remote zone will consist of the territories included in the following administrative regions, RCMs, urban agglomerations or municipalities:

- Bas-Saint-Laurent;
- Saguenay–Lac-Saint-Jean;
- Abitibi-Témiscamingue;
- Côte-Nord, except for the municipality of L'Île-d'Anticosti and the Golfe-du-Saint-Laurent RCM;
- Nord-du-Québec, excluding the Kativik Regional Government;
- Gaspésie, including the Avignon, Bonaventure, Côte-de-Gaspé, La Haute-Gaspésie and Rocher-Percé RCMs;
- the eastern portion of Estrie, including the Granit and Haut-Saint-François RCMs;
- Antoine-Labelle RCM (Laurentides);
- La Tuque urban agglomeration and Mékinac RCM (Mauricie);
- Pontiac and La Vallée-de-la-Gatineau RCMs (Outaouais);
- Charlevoix-Est RCM (Capitale-Nationale).

- **Special remote zone**

The special remote zone will consist of the territories included in the following administrative regions, RCMs, urban agglomerations, municipalities or regional government:

- municipality of L'Île-d'Anticosti (Côte-Nord);
- Îles-de-la-Madeleine urban agglomeration;
- Golfe-du-Saint-Laurent RCM (Côte-Nord);
- Kativik Regional Government (Nord-du-Québec).

■ **Combination rule**

Where the MPCC attributable to a zone with a higher base rate prevents a manufacturing SME from qualifying for such higher rate, the MPCC attributable to such zone may be combined with that of another zone with a lower base rate. This rule will then enable the manufacturing SME to enjoy a more advantageous base rate in certain cases.

Take the example of a manufacturing SME whose breakdown of the MPCC among various zones is 30% in the special remote zone (6% rate), 15% in the remote zone (4% rate), 20% in the intermediate zone (2% rate) and 35% in the other regions (0% rate).

Under the combination rule, this manufacturing SME can claim the base rate of 4% applicable to the remote zone, by adding the 30% allocation of the MPCC of the special remote zone with the 6% rate to the 15% allocation of the remote zone with the 4% rate. Under the combination rule, the remote zone becomes the zone in which the MPCC is the highest for this taxation year with the combined rate of 45%.

■ **Rate of the additional deduction depending on the level of manufacturing activities**

A manufacturing SME whose proportion of activities attributable to manufacturing and processing activities, for a given taxation year, is 50% or more, may claim the maximum additional deduction otherwise applicable to it for such taxation year, i.e. the rate depending on the zone where the largest share of its manufacturing activities is carried out.

Moreover, where such proportion, for a given taxation year, is between 50% and 25%, the additional deduction rate the manufacturing SME may claim, for such taxation year, will be reduced linearly. The rate allowed on account of the additional deduction will be equal to the rate determined by the following formula:

$$\text{Rate allowed} = \text{Base rate} \times \frac{(\text{PMPA} - 25\%)}{25\%}$$

In this formula, PMPA stands for the proportion of manufacturing and processing activities.¹¹

For example, a manufacturing SME whose base rate is 4% (because it carries out the largest share of its manufacturing activities in the remote zone) and whose proportion of activities attributable to manufacturing and processing activities is 40% may claim an additional deduction rate of 2.4%.¹²

11 The notion of “proportion of manufacturing and processing activities” is the one used for the purposes of the reduction of the tax rate for manufacturing SMEs. In this regard, see subsection 1.1 for more details.

12 I.e.: $4\% \times ((40\% - 25\%) / 25\%) = 2.4\%$.

This additional deduction rate will apply regarding a taxation year ending after the day of the budget speech. However, where the taxation year of a manufacturing SME includes the day of the budget speech, the additional deduction rate will apply in proportion to the number of days of such taxation year that follow the day of the budget speech.

□ Determination of the additional deduction cap

As indicated above, the amount of this additional deduction a corporation may claim for a taxation year will be capped, on the one hand, depending on its gross income for such taxation year and the regional cap applicable to it for such taxation year and, on the other, depending on the corporation’s size.

■ Limit based on gross income and on the regional cap

The additional deduction will be limited, first, to a percentage of the manufacturing SME’s gross income for the taxation year. This percentage will be the allowed¹³ on account of the additional deduction rate the manufacturing SME for such taxation year.

The additional deduction thus obtained will, however, be limited to a regional cap for manufacturing SMEs benefiting from a base rate of 4% and 2%, i.e. those that carry out the largest share of their manufacturing activities in the remote zone or the intermediate zone. These caps will be \$250 000 and \$100 000 respectively.

When a manufacturing SME’s taxation year has fewer than 365 days, these caps will be reduced in proportion to the number of days of such taxation year compared to 365.

For greater clarity, no regional cap will be applied for manufacturing SMEs that carry out the largest share of their manufacturing activities in the special remote zone.

■ Reduction of the cap depending on the size of the corporation

The additional deduction calculated according to the rules set out above will be reduced depending on the corporation’s size.

Briefly, Canadian-controlled private corporations with paid-up capital of \$10 million or less enjoy a reduced tax rate of 8% on the first \$500 000 of annual income – the small-business income ceiling – from an eligible business.¹⁴

The additional deduction a manufacturing SME may claim for a taxation year will be reduced on the basis of the size parameters applicable to the reduced tax rate.

13 By applying thereto the reduction relating to a taxation year including the day of the budget speech, if applicable.

14 It should be noted that the \$500 000 small business income ceiling gradually reduces for corporations with paid-up capital between \$10 million and \$15 million and becomes zero for corporations with paid-up capital of \$15 million or more.

1.3 Reduced contribution to the Health Services Fund to boost innovation in SMEs

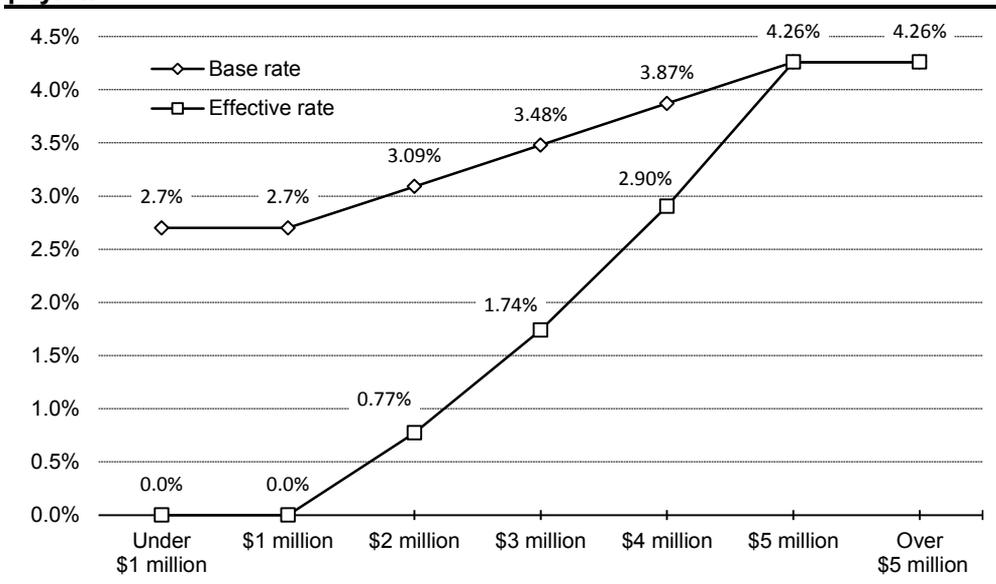
In a highly competitive global environment, hiring specialized workers helps improve the position of small and medium-sized enterprises (SMEs) on markets.

Accordingly, to bolster Québec SMEs' capacity to innovate, while fostering the creation of specialized jobs, a temporary reduction in the contribution to the Health Services Fund will be implemented for full-time jobs created in the natural and applied sciences sector.

Briefly, this reduction will be granted until 2020 for the increase in payroll attributable to the hiring of specialized employees. For employers whose payroll does not exceed \$1 million, the reduction will completely eliminate the contribution to the Health Services Fund payable for such new specialized employees. Employers whose payroll is between \$1 million and \$5 million will receive a partial reduction in the contribution payable for such employees.

CHART

Illustration of the effect of the reduction in the contribution rate on the salary paid to a new specialized employee based on the employer's total payroll



❑ Determination of the reduction

An eligible employer that, during a given year prior to 2021, pays, allocates, grants or awards a salary to one or more eligible employees will be deemed to have paid regarding the year, unless its total payroll for the year is \$5 million or more, an excess contribution to the Health Services Fund amounting to the product of the multiplication of the rate of reduction applicable for the year by the lower of the following amounts:

- all of the amounts each of which represents the eligible salary paid in the year to an eligible employee for the year;
- the increase in the employer's payroll for the year represented by the amount by which the employer's adjusted payroll for the year exceeds its adjusted payroll for its reference year.

In this regard, the rate of reduction applicable for a year will correspond to 2.7% where the employer's total payroll for the year is \$1 million or less and, otherwise, the rate determined by the following formula:

$$\text{Employer's HSF}^{15} \text{ contribution rate for the year} - \left[\text{Employer's HSF contribution rate for the year} \times \frac{\text{Employer's total payroll for the year} - \$1 \text{ million}}{\$4 \text{ million}} \right]$$

Where the rate determined by the above formula has more than two decimals, only the first two are to be used and the second decimal must be increased by one unit if the third is greater than 4.

An employer that is deemed to have paid for a given year an excess contribution to the Health Services Fund may obtain a refund thereof upon application to the Minister in the four years following the end of the year for which it is deemed to have paid such excess contribution. Such application must be made in writing and be accompanied by the documents and information allowing the Minister to determine such excess amount.

■ Eligible employer

An eligible employer for a year means any employer, other than an excluded employer, that, during the year, carries on a business in Québec and has an establishment there. The employer can be a legal person, a partnership or an individual.

To that end, an excluded employer for a year means the State, the government of another province or the Canadian government as well as an employer that, at a given time of the year, is:

- either an organization that is a mandatary of the State, the government of another province or the Canadian government;

15 In this formula, HSF stands for the Health Services Fund.

- a municipality or an organization that is a mandatory of a municipality;
- a municipal or public body that performs a function of government or an organization that is a mandatory of such a body;
- or a corporation, commission or association exempt from income tax under section 985 of the *Taxation Act*.¹⁶

■ Eligible employee

An eligible employee means an employee who is hired to hold, in Québec, a recognized job under an employment contract – for an indeterminate term or for a stipulated minimum period of 40 weeks – requiring at least 26 hours of work per week, provided such employee holds a diploma normally required to have access to the recognized job and provided he was hired:

- where the employer’s reference year is calendar year 2013, after the day of the budget speech;
- otherwise, after the end of the employer’s reference year.

The full list of recognized jobs is given in the table at the end of this subsection. The NOC codes and the names of the recognized jobs found therein refer to the 2011 National Occupational Classification.¹⁷

For greater clarity, the 2011 National Occupational Classification contains, for each recognized job, in the section entitled “Employment requirements”, a description of the diplomas normally required for access to the job.

■ Eligible salary

An employee’s eligible salary for a given year corresponds to any part of his salary included in the calculation of the Health Services Fund contribution payable for the year by the employer, excluding an amount representing the value of a benefit the employee received or benefited from because of a prior office or employment.

■ Reference year

An employer’s reference year corresponds to the first calendar year after 2012 in which the employer carried on a business during the entire year.

In this regard, where, at any time after December 31, 2012, an employer immediately succeeds another employer further to the formation, liquidation or winding-up of a legal person or a partnership, such employer shall be deemed to have carried on a business during a month in which a business was carried on by an employer of which it is the successor.

¹⁶ CQLR, chapter I-3.

¹⁷ The 2011 National Occupational Classification is the authoritative resource on occupational information in Canada. It can be used to gain insight into available jobs on Canada’s labour market. This classification is produced jointly by Human Resources and Skills Development Canada and Statistics Canada. It can be found at: www5.hrsdc.gc.ca/NOC/English/NOC/2011/Welcome.aspx.

■ Total payroll

The total payroll of an eligible employer for a year will be determined using the same rules as those stipulated for the purposes of calculating its contribution to the Health Services Fund for the year.

Essentially, an eligible employer's total payroll for a year corresponds to all of the salaries paid or deemed paid during the year by the employer and by any other employer with which the employer is associated at the end of the year and that, at such time, carries on a business in which it ordinarily employs, throughout all or part of the year, at least one employee, whether full-time or part-time.

■ Increase in payroll

The increase in an eligible employer's payroll for a given year must be determined taking into account the payroll and the attributes of all the employers associated with each other at the end of the year – except for employers for whom the reference year has not ended before the beginning of the year.

In addition, employers associated with each other must share the amount of the increase in payroll determined for a given year by filing an agreement to that effect with Revenu Québec. However, the amount thus allocated to an eligible employer may not exceed the amount corresponding to all of the amounts each of which represents the eligible salary it paid in the year to an eligible employee.

□ Special rules in the case of a reorganization

Rules will be put in place so that the amount of the excess contribution to the Health Services Fund is not reduced simply because an employer succeeded other employers following a business reorganization.

Briefly, where, after the day of the budget speech, an employer immediately succeeds another further to the formation, liquidation or winding-up of a legal person or a partnership ("new employer"), the following rules will apply:

- the eligible employees of an employer of which the new employer is the successor will be considered eligible employees of the new employer, provided such employees hold a full-time recognized job;
- the new employer's reference year will be deemed to have ended immediately after the beginning of the year during which it succeeded another employer, unless none of the employers of which it is the successor had a reference year for the purposes of calculating the amount of excess contribution;¹⁸
- the new employer's payroll for its reference year will be deemed equal to all of the amounts each of which corresponds:
 - where an employer of which it is the successor had a reference year, to such employer's payroll for its reference year,

18 In such a case, the new employer's reference year corresponds to its first calendar year after 2012 in which it carried on a business during the entire year.

- where an employer of which it is the successor did not have a reference year, to such employer's payroll for the period of the year ending immediately prior to the time at which it became the successor of such employer.

Moreover, to ensure the integrity of the measure, where it is reasonable to consider that one of the chief reasons for the transfer of a business or part of a business from one employer to another employer during a year is so that an employer is deemed to have paid an excess contribution to the Health Services Fund or to increase the amount of such excess contribution for the year, such employers will be deemed to be associated at the end of their reference year.

TABLE 2

List of recognized jobs for the purposes of the reduction in the Health Services Fund contribution

NOC code	Name according to the 2011 National Occupational Classification⁽¹⁾
2111	Physicists and astronomers
2112	Chemists
2113	Geoscientists and oceanographers
2114	Meteorologists and climatologists
2115	Other professional occupations in physical sciences ⁽²⁾
2121	Biologists and related scientists
2122	Forestry professionals
2123	Agricultural representatives, consultants and specialists
2131	Civil engineers
2132	Mechanical engineers
2133	Electrical and electronics engineers
2134	Chemical engineers
2141	Industrial and manufacturing engineers
2142	Metallurgical and materials engineers
2143	Mining engineers
2144	Geological engineers
2145	Petroleum engineers
2146	Aerospace engineers
2147	Computer engineers (except software engineers and designers)
2148	Other professional engineers, n.e.c. ⁽³⁾
2151	Architects
2153	Urban and land use planners
2161	Mathematicians, statisticians and actuaries
2171	Information systems analysts and consultants
2172	Database analysts and data administrators
2173	Software engineers and designers
2174	Computer programmers and interactive media developers
2175	Web designers and developers
2211	Chemical technologists and technicians
2212	Geological and mineral technologists and technicians

TABLE 2 (end)

List of recognized jobs for the purposes of the reduction in the Health Services Fund contribution

NOC code	Name according to the 2011 National Occupational Classification ⁽¹⁾
2221	Biological technologists and technicians
2223	Forestry technologists and technicians
2231	Civil engineering technologists and technicians
2232	Mechanical engineering technologists and technicians
2233	Industrial engineering and manufacturing technologists and technicians
2241	Electrical and electronics engineering technologists and technicians
2243	Industrial instrument technicians and mechanics
2244	Aircraft instrument, electrical and avionics mechanics, technicians and inspectors
2251	Architectural technologists and technicians
2252	Industrial designers
2253	Drafting technologists and technicians
2255	Technical occupations in geomatics and meteorology
2281	Computer network technicians
2283	Information systems testing technicians

(1) The National Occupational Classification is produced jointly by Human Resources and Skills Development Canada and Statistics Canada. It can be viewed at: www5.hrsdc.gc.ca/NOC/English/NOC/2011/Welcome.aspx.

(2) This group includes metallurgists, soil scientists and physical scientists and researchers, not elsewhere classified, involved in the conduct of theoretical and applied research in fields of physical science.

(3) This unit group includes agricultural and bio-resource engineers, biomedical engineers, engineering physicists and engineering scientists, marine and naval engineers, textile engineers and other specialized engineering occupations which are not classified elsewhere.

1.4 Introduction of incentives to foster the marine industry

As part of the maritime strategy, a large number of measures will be put in place to stimulate the economic development of many of Québec's coastal regions.

The purpose of these measures is to give new impetus to marine transportation and continue to develop marine tourism, ensure the long-term viability of the fishery and aquaculture industry, respond to anticipated shortages of skilled labour and move Québec into the blue economy by investing in research and development of marine technologies.

In addition, to energize Québec's shipyards, new fiscal measures will be introduced. These measures are designed to support Québec shipyards by encouraging Québec shipowners to entrust work on their ships to our shipyards.

More specifically, two new fiscal measures will be added to the existing refundable tax credit for the construction or conversion of ships.¹⁹

¹⁹ *Taxation Act* (CQLR), chapter I-3, sec. 1029.8.36.54.

The first measure will enable a Québec shipowner to set up a tax-free reserve to award the execution of construction, renovation and maintenance work on vessels of his fleet to a Québec shipyard.

Under the second measure, a Québec shipowner that awards work to a Québec shipyard will be able to claim an additional deduction for the depreciation of a vessel.

1.4.1 Creation of a tax-free reserve

Given the aging of Québec's fleet, Québec shipowners need to set up capital reserves to cover the cost of maintenance and improvements to the ships of their fleets, or to build new ships.

To help shipowners to set up such reserves and encourage them to use these funds to award the work on their vessels to Québec shipyards, the tax legislation will be amended to allow the creation of a tax-free reserve.

Tax-free reserve

To simplify and minimize the administrative tasks of shipowners and allow them more latitude in managing their capital funds, a shipowner will have to maintain separate accounting for the tax-free reserve.

Accordingly, the tax-free reserve will not involve the creation of a specific account or a trust that would be similar to a tax-free savings account.

In addition, such separate accounting will help reduce possible distortions between the federal and Québec tax legislations.

Qualified shipowner

A qualified shipowner means a corporation that carries on a business in Québec and has an establishment there.

Such corporation will have to obtain a certificate from the Ministère de l'Économie, de l'Innovation et des Exportations (MEIE) certifying that it operates in the course of such business one or more eligible vessels regarding which it wishes to set up a fund for the work it plans to have done by a qualified shipyard to maintain or renovate eligible vessels of its fleet, or have such shipyard build a qualified vessel.

The application for such certificate must be submitted to the MEIE before January 1, 2024.²⁰

The corporation must enclose a copy of such certificate with the tax return it files for the taxation year during which it set up a tax-free reserve.

20 The conditions for issuing of this certificate will be contained in the *Act respecting the sectoral parameters of certain fiscal measures* (CQLR, chapter P-5.1).

■ Qualified vessel

A qualified vessel means a vessel that satisfies the conditions stipulated in section 130R165 of the *Regulation respecting the Taxation Act*²¹ or the conditions stipulated in paragraphs *b* or *c* of category 7 of Schedule B of such regulation.

■ Qualified shipyard

A qualified shipyard means a site that satisfies the conditions stipulated in section 9.4 of Schedule C of the *Act respecting the sectoral parameters of certain fiscal measures*, except for paragraph 4 of such section that will not apply in this regard.

Briefly, the shipyard must have an establishment in Québec that has direct access to a navigable body of water and has the tools, lands, keep blocks, ramps, dry docks, and workshops under permanent shelter that are necessary for the construction or conversion of vessels in whole or in modules.

■ Separate accounting and prescribed form

A qualified shipowner must keep separate accounting, for a taxation year, for its tax-free reserve and indicate therein the eligible additions and eligible withdrawals for such year.

In addition, for a taxation year, such separate accounting must show the total value and the fair market value (FMV) of the eligible funds that make up the tax-free reserve at the beginning of such year – or on the date the tax-free reserve is created if such date is after the beginning of such year – as well as the total value and FMV of the eligible funds that make up the tax-free reserve at the end of such year.

A qualified shipowner may not set a tax-free reserve unless it maintains such separate accounting.

In addition, a qualified shipowner may not set up a tax-free reserve before it obtains the certificate mentioned earlier from the MEIE.

Moreover, for a taxation year, a qualified shipowner must indicate, using the form prescribed by Revenu Québec, the interest income, dividends and capital gains generated by such eligible funds for such year.

Such interest income, dividends and capital gains must be held in the tax-free reserve and not be used for any purpose other than an eligible withdrawal from the tax-free reserve, except for satisfying an obligation to pay an amount to another tax jurisdiction in relation to such interest income, dividends and capital gains.

Accordingly, for a taxation year, such interest income, dividends and capital gains will be considered eligible funds added to the tax-free reserve of the qualified shipowner who must show them as such in the separate accounting it must file for such year, apart from the exception mentioned in the preceding paragraph.²²

21 CQLR, chapter I-3, r. 1.

22 For greater clarity, the expression capital gain includes a capital loss for the purposes of keeping separate accounting and the prescribed form.

Such separate accounting and such form must be enclosed with the tax return the qualified shipowner files for each taxation year for which it has a tax-free reserve.

■ **Eligible fund**

An eligible fund means any property²³ other than an excluded property.

In this regard, an excluded property means a depreciable property²⁴ as well as a property that generates business income.

In addition, an excluded property means a debt security, a bond, a debenture, a share of the capital stock of a corporation or any other property of the same nature issued by a person with whom the eligible shareholder is not at arm's length.

■ **Eligible addition**

An eligible fund will not constitute an eligible addition to a tax-free reserve of a qualified shipowner until the day when the shipowner advises Revenu Québec of such addition using the prescribed form.

In addition, such notice must provide a detailed description of the eligible fund added to the tax-free reserve.

As for the interest income, dividends and capital gains generated by eligible funds and that must be held in the tax-free reserve as mentioned above the shipowner will not have to provide Revenu Québec with such notice because the relevant information in this regard will be included in the separate accounting the shipowner must enclose annually with its tax return.

■ **Eligible withdrawal**

An eligible withdrawal from a tax-free reserve of a qualified shipowner means an amount such shipowner withdraws from such reserve to pay the cost of work it awards to a qualified shipyard to do maintenance or improvement work on qualified vessels of his fleet or to build new qualified vessels it will use.

In addition, an eligible withdrawal means an amount, which is reasonable in the circumstances, the shipowner withdraws from its tax-free reserve to deal with the consequences of exceptional and unforeseen events such as financial difficulties that could jeopardize the continuation of its activities.

■ **Duration of the reserve**

A tax-free reserve of a qualified shipowner will begin on the day when, for the first time, it sends a notice using the prescribed form to Revenu Québec so that an eligible fund be considered an eligible addition to such reserve.

In this regard, a qualified shipowner that has obtained a certificate from the MEIE in relation to the creation of a tax-free reserve must make an initial eligible addition to such reserve before January 1, 2024.

23 *Taxation Act*, sec. 1, definition of the expression "property".

24 *Taxation Act*, sec. 1, definition of the expression "depreciable property".

Exceptionally, a qualified shipowner that obtains such a certificate after December 31, 2023 but submitted the application for such certificate to the MEIE before January 1, 2024 may make an initial eligible addition to a tax-free reserve within a reasonable time following the date the MEIE issued such certificate.

A tax-free reserve of a qualified shipowner will end no later than December 31, 2033.

However, if a qualified shipowner fails to file, for a taxation year, a separate accounting and the prescribed form as mentioned above, its tax-free reserve will be terminated.

In addition, a withdrawal from a tax-free reserve that does not qualify as an eligible withdrawal will lead to the termination of a qualified shipowner's tax-free reserve.

In each of these cases, the tax-free reserve of a qualified shipowner will be deemed to terminate at the beginning of the first day of the taxation year for which the qualified shipowner fails to file such documents or during which it makes such withdrawal.

☐ Tax holiday

A qualified shipowner may receive a tax holiday, for a taxation year, regarding the interest income, dividends and capital gains realized for such year in relation to the eligible funds of a tax-free reserve that has not been terminated in such year.

Such tax holiday will consist of a deduction in calculating the taxable income of a qualified shipowner for a taxation year and will correspond to the amounts or the portion of the amounts of interest income, dividends and capital gains, according to the terms applicable to each, included in the calculation of the shipowner's income for such year.

A qualified shipowner may receive this tax holiday only if it encloses with the tax return it must file for a taxation year the separate accounting and the prescribed form mentioned above concerning a tax-free reserve.

☐ Special rules

A qualified shipowner may not deduct in calculating its income for a taxation year any amount of interest or expense relating to an eligible fund included in a tax-free reserve for such year.

For the purposes of determining the amount of a qualified shipowner's net capital loss for a taxation year, the amount of a taxable capital gain or allowable capital loss resulting from the alienation of an eligible fund of a tax-free reserve will be deemed to be zero.

In addition, for the purposes of determining a qualified shipowner's income for a taxation year, an allowable capital loss resulting from the alienation of an eligible fund of a tax-free reserve will be deemed to be zero.

Lastly, for the purposes of determining a qualified shipowner's income for a taxation year, a capital loss resulting from the alienation of a property will be deemed to be zero where the same property or a similar property is added to a tax-free reserve within a period of 90 days following such alienation.

❑ Inappropriate tax planning

A tax-free reserve will be deemed never to have been set up by a qualified shipowner where it transpires, in light of the facts, that the shipowner's objective was not to have work done by a qualified shipyard to maintain or renovate qualified vessels of his fleet or have a qualified vessel built by such shipyard, but rather to obtain a tax benefit by setting up such a reserve.

In such circumstances, Revenu Québec may, at any time, determine or determine anew the taxes, interest and penalties so as to not take into account the tax holiday attributable to a tax-free reserve reported by a qualified shipowner for a taxation year.

❑ Special tax

A qualified shipowner will be required to pay a special tax for a taxation year when a tax-free reserve terminates in such year.

Such special tax will correspond to the product of 1% of the FMV of the balance of the eligible funds included in the tax-free reserve at the end of the taxation year preceding the one during which the reserve was terminated, multiplied by the number of taxation years during which the qualified shipowner had a tax-free reserve.

❑ Application date

These changes will apply in relation to a tax-free reserve set up after the day of the budget speech pursuant to a certificate issued by the MEIE after that day.

1.4.2 Additional capital cost allowance of a vessel

The tax legislation and regulations stipulate that a taxpayer may deduct, in calculating his income, for a taxation year, 33 ⅓% of the cost of Canadian vessel.²⁵

Briefly, a Canadian vessel means a vessel that was built in Canada, is registered there and was not used for any purpose before being acquired by the taxpayer.

To support Québec's shipyards, Québec's tax legislation and regulations will be amended so that a taxpayer may claim an additional capital cost allowance where he has such a vessel built or has renovation work done on it by a Québec shipyard.

❑ Qualified shipyard

The additional deduction will apply solely to work a taxpayer has done by a qualified shipyard. More specifically, a qualified shipyard means such a shipyard defined for the purposes of the tax-free reserve described above.

25 *Regulation respecting the Taxation Act*, sec. 130R62 and 130R165. This rate is 16 ⅔% for the year in which the vessel is acquired.

❑ **Additional capital cost allowance of a vessel**

The additional deduction will correspond to 50% of the amount a taxpayer deducts in calculating his income for a taxation year on account of the capital cost allowance in relation to the cost included in the separate class applicable to a Canadian vessel and relating to work done by a qualified shipyard.

❑ **Application date**

This amendment will apply, for a taxation year, to the cost of work done by a qualified shipyard in relation to a Canadian vessel pursuant to a contract a taxpayer enters into with such shipyard after the day of the budget speech but before January 1, 2024.

1.5 Amendments to the *Mining Tax Act*

An operator is required to pay, for a fiscal year, mining duties corresponding to the greater of its minimum mining tax or its mining tax on its annual profit for the fiscal year.²⁶

Briefly, an operator's minimum mining tax, for a fiscal year, is calculated on the output value at the mine shaft head regarding all of the mines it operates, for the fiscal year.²⁷

To calculate the mining tax on its annual profit, an operator must determine its annual profit, for the fiscal year, taking into account all the annual earnings from each mine it operates, for the fiscal year, from which the expenses and allowances from its mining operation are subtracted.²⁸

To calculate the output value at the mine shaft head and the annual earnings for a mine it operates, for a fiscal year, an operator must establish the gross value of annual output from such mine, for the fiscal year, from which certain expenses and allowances attributable to the operation of the mine, including the processing allowance, may be deducted.

An operator's gross value of annual output from a mine it operates, for a fiscal year, corresponds, briefly, to the value of mineral substances and processing products from the mining operation that is reasonably attributable to the operation of such mine.

26 This calculation method applies to an operator for a fiscal year beginning after December 31, 2013 (MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin 2013-4*, May 6, 2013).

27 A 1% tax rate applies to the first \$80 million of output value at the mine shaft head regarding all of the mines it operates and a 4% tax rate applies to the excess.

28 Rates of 16%, 22% and 28% each apply to a segment of the operator's annual profit determined on the basis of its profit margin.

❑ **Adjustment to the rules used to determine the value of gemstones**

The *Mining Tax Act* stipulates various terms and conditions for determining an operator's gross value of annual output from a mine it operates.²⁹ Where the mineral substances graded are gemstones, the *Mining Tax Act* stipulates that the determination of the gross value of annual output must, among others, be made at the mine site.³⁰ However, it transpires that such an evaluation could, in some cases, be carried out outside the mine site without compromising the grading of such gemstones.

The *Mining Tax Act* will therefore be amended so that, further to a written application to that effect by the operator to the Minister of Energy and Natural Resources after the day of the budget speech, the Minister may, under the conditions he may set, allow the value of mineral substances from a mine that are gemstones to be determined outside the mine site.

❑ **Inclusion of hydrometallurgy in the definition of the expression “processing”**

For the purposes of the *Mining Tax Act*, a mining operation includes all the work related to the various phases of mineral development including exploration, pre-production development, post-production development, extraction and processing.

The expression “processing” means any activity involving the concentration, smelting or refining of a mineral substance and includes any activity involving pelletization, the production of powder or the production of steel billets.

Hydrometallurgy is a process used in the processing of new mineral substances, such as rare earths.

To ensure that the *Mining Tax Act* takes this process into account, the definition of the expression “processing” will be changed to include hydrometallurgy activity.

To that end, hydrometallurgy means any processing of ore or concentrate that produces a metal, metallic salt or a metallic compound by carrying out a chemical reaction in an aqueous or organic solution.

This change will apply to an operator for a fiscal year beginning after December 31, 2013.

29 *Mining Tax Act* (CQLR, chapter I-0.4), sec. 6.

30 *Mining Tax Act*, sec. 6.2, par. 1, subpar. 1.

❑ Changes to the calculation of the processing allowance to include hydrometallurgy

A mining operator that carries out mineral substance processing activities can deduct in calculating the output value at the mine shaft head for a mine it operates and the annual earnings from the mine, an amount on account of the processing allowance. This allowance makes it possible to recognize that part of the gross value of annual output attributable to the mine stems from the value-added given the mineral substances and processing products by such processing activities. It grants, to some extent, a financial return to the investor regarding the cost of property located in Québec and used to process the mineral substance from the mine.

Considering the change made to the definition of the expression “processing”, the *Mining Tax Act* will also be amended to reflect the addition of hydrometallurgy activities for the calculation of the processing allowance.

Accordingly, for the determination of the amount of the processing allowance that an operator may deduct in calculating its output value at the mine shaft head for a mine it operates, and in calculating its annual earnings from the mine, for a fiscal year, the assets used for hydrometallurgical activities may be considered in the same way as assets used for smelting or refining.

Consequently, the 13% rate applicable for assets used in processing ore from a mine where the operator carries out smelting or refining of ore, other than ore from a gold or silver mine, exclusively outside Québec, will also apply where the operator carries out hydrometallurgy of ore, other than ore from a gold mine or a silver mine, exclusively outside Québec. The reduction of three percentage points of the 13% rate for assets used for the purposes of ore concentration will be calculated in the proportion where such assets are used for the concentration of ore that is neither smelted nor refined by the operator and has not undergone hydrometallurgical processing by the operator.

The 20% rate applicable for assets used in the processing of ore from the mine where the operator carries out smelting or refining of ore, other than ore from a gold or silver mine, in Québec will also apply for assets used in processing ore from the mine where the operator carries out hydrometallurgy of ore, other than ore from a gold or silver mine, in Québec. This 20% rate will be reduced by seven percentage points for an asset used in processing ore in the proportion where such asset is used for the processing of ore that is neither smelted nor refined in Québec and has not undergone hydrometallurgical processing in Québec. It will be reduced by ten percentage points for assets used for ore concentration, in the proportion where such assets are used for the concentration of ore that will be neither smelted nor refined by the operator and will not undergo hydrometallurgical processing by the operator.

The 10% rate applicable for assets used in the processing of ore from the mine where the operator carries out concentration³¹ exclusively remains unchanged. The same applies to the other rules applicable to the calculation of the processing allowance.

31 Including the processing of ore from a gold or silver mine.

These changes will apply to an operator for a fiscal year beginning after December 31, 2013.

2. MEASURES TO ENCOURAGE ACTIVE LIVING FOR SENIORS

2.1 Enhancement of the tax credit for experienced workers

Like most industrialized countries, Québec has an aging population, but what characterizes the phenomenon here is the rapidity with which the change is occurring.

Due to accelerated population aging and the low birth rate in recent decades, the available labour pool will necessarily shrink in the near future.

Consequently, to encourage experienced workers to remain in or re-enter the labour market, the tax system allows workers 65 or older to claim a tax credit that eliminates the income tax payable on a portion of their work income in excess of \$5 000.

Introduced in 2012, the tax credit currently eliminates the income tax payable by workers on their first \$3 000 of eligible work income in excess of the first \$5 000 of such income.

Briefly, a worker's eligible work income for a year is the remuneration included in the calculation of the worker's income for the year from an office or employment, the amount by which the worker's income for the year from any business the worker carries on either alone or as a partner actively engaged in the business exceeds the worker's losses for the year from such businesses, and the grants received by the worker in the year to carry on research or any similar work.

To further encourage experienced workers to remain in or re-enter the labour market, the tax legislation will be amended to provide that, as of the 2015 taxation year, the tax credit for experienced workers will be calculated on an experienced worker's first \$4 000 of eligible work income in excess of the first \$5 000 of such income.

2.2 Introduction of a refundable tax credit for seniors' activities

The reduction of muscular mass and loss of endurance associated with aging can make activities of daily living more difficult. Unfortunately, the fear of falling or injury is too often cited by seniors as a reason for not engaging in physical activity that could help improve their lives.

On the contrary, regular physical activity reduces the risk of falling or injury due to falls, because it not only develops muscular flexibility, strength and endurance, but it also ensures better balance.

The benefits of regular physical activity for seniors are not restricted to enhancement of their functional abilities. Several studies show that physical activity has a markedly positive psychological impact by preserving certain aspects of cognitive function, relieving symptoms associated with anxiety, and improving sleep and mood.

To ensure that seniors retain their cognitive function for as long as possible, they must also continue to engage in artistic, cultural or recreational activities that solicit and stimulate their intellectual abilities.

Accordingly, to support regular participation of seniors in structured activities intended to enhance their well-being, a refundable tax credit of up to \$40 a year will be granted to low- or middle-income persons 70 or older who register for recognized activity programs.

□ Determination of the tax credit

An individual, other than an excluded individual, who is resident in Québec or 70 years of age at the end of December 31 of a particular taxation year, or, if the individual dies in the year, on the date of his or her death, may claim for that year a refundable tax credit equal to the lesser of 20% of \$200 or of the total eligible expenses paid in the year by the individual or the person who is the individual's spouse at the time of the payment.

■ Excluded individual

An excluded individual for a particular taxation year will be an individual:

- whose income for the year exceeds \$40 000 (this amount will be automatically indexed each year as of January 1, 2015, according to the usual rules); or
- who is exempt from tax for the year under section 982 or 983 of the *Taxation Act*³² or subparagraph *a, b, c, d* or *f* of the first paragraph of section 96 of the *Tax Administration Act*,³³ or who is the eligible spouse for the year³⁴ of such an individual.

■ Determination of an individual's income

Where an individual goes bankrupt during a particular calendar year, the rule under which the bankrupt's taxation year is deemed to begin on the date of the bankruptcy and the current taxation year is deemed to end the day before that date will not apply for the purposes of determining the individual's income for the year.

32 CQLR, chapter I-3.

33 CQLR, chapter A-6.002.

34 In general, the eligible spouse of an individual for a particular year is the person who is the individual's spouse at the end of the year and who, at that time, is not living separate and apart from the individual or, where the individual does not have a spouse at the end of the year, the last person who was the individual's spouse during the year, if that person died during the year and, at the time of death, was the individual's spouse and was not living separate and apart from the individual.

In addition, where an individual is not resident in Canada throughout a particular year, the individual's income for that year will be deemed to be equal to the income that would have been determined in his or her regard had he or she been resident in Québec and Canada throughout the year or, if the individual dies during the year, throughout the period of the year preceding his or her death.

❑ Eligible expenses

An eligible expense of an individual for a particular taxation year will be any amount paid by the individual in the year to a person or partnership – other than a person or partnership that, at the time of the payment, is the operator of a private seniors' residence where the individual lives, or is related to the individual and does not hold a registration number assigned under the *Act respecting the Québec sales tax*³⁵ – to the extent that the amount is attributable to the cost of the individual's registration or membership in a recognized program of activities offered by the person or partnership.

To that end, the cost of registration or membership in the program offered by a person or partnership will include the cost to the person or partnership with respect to the program's administration, instruction, rental of required facilities, and uniforms and equipment that are not available to be acquired by a participant in the program for an amount less than their fair market value at the time, if any, they are so acquired.

However, the cost must not include the cost of accommodation, travel, food or beverages.

■ General restrictions

The amounts paid for the registration or membership of an individual in a recognized program of activities that are taken into account in the calculation of eligible costs or expenses for the purposes of another refundable or non-refundable tax credit claimed by a person will not give entitlement to the refundable tax credit for seniors' activities.

Nor may the tax credit be claimed with respect to amounts for which a person is or was entitled to a refund or other form of assistance, unless such amounts must be included in the calculation of a taxpayer's income and are not deductible in the calculation of the taxpayer's income or taxable income.

However, government assistance that consists of tax relief granted under the federal tax system need not be applied against an individual's eligible expenses.

■ Proof of payment

An individual may include an amount in the calculation of his or her expenses eligible for the tax credit only if payment of the amount can be proven by means of a receipt containing the prescribed information and issued by the person or partnership having offered a recognized program of activities to the individual.

35 CQLR, chapter T-0.1.

For greater clarity, to claim the refundable tax credit for seniors' activities for a particular taxation year, an individual will not be required to enclose with his or her tax return the receipts issued for the activities.

However, the individual must keep the receipts in the event of a subsequent audit by Revenu Québec. The time period for keeping the receipts will be the same as that under the general rule, according to which anyone who is required to keep registers must retain them, as well as any documents substantiating the information contained therein, for six years after the last year to which they apply.

□ Recognized programs of activities

For the purposes of the refundable tax credit for seniors' activities, the following programs of activities will be recognized:

- a weekly program of a duration of eight or more consecutive weeks in which all or substantially all of the activities include a significant amount of physical activity, or artistic, cultural or recreational activity;
- a program of a duration of five or more consecutive days of which more than 50% of the daily activities include a significant amount of physical activity, or artistic, cultural or recreational activity;
- a program of a duration of eight or more consecutive weeks, offered to seniors by a club, association or similar organization in circumstances where a participant in the program may select amongst a variety of activities, if:
 - more than 50% of those activities offered to seniors by the entity are activities that include a significant amount of physical activity, or artistic, cultural or recreational activity, or
 - more than 50% of the time scheduled for activities offered to seniors in the program is scheduled for activities that include a significant amount of physical activity, or artistic, cultural or recreational activity;
- a membership in a club, association or similar organization of a duration of eight or more consecutive weeks, if more than 50% of all the activities offered to seniors by the entity include a significant amount of physical activity, or artistic, cultural or recreational activity;
- a part of a program, other than an otherwise recognized program of activities, of a duration of eight or more consecutive weeks, offered to seniors by a club, association or similar organization in circumstances in which a participant in the program may select amongst a variety of activities, where the part of the program represents:
 - the percentage of activities offered to seniors by the entity that are activities including a significant amount of physical activity, or artistic, cultural or recreational activity, or
 - the percentage of time scheduled for activities in the program that is scheduled for activities including a significant amount of physical activity, or artistic, cultural or recreational activity;

- a part of a membership in a club, association or similar organization, other than a membership that is an otherwise recognized program of activities, of a duration of eight or more consecutive weeks, that represents the percentage of activities offered to seniors by the entity that are activities including a significant amount of physical activity, or artistic, cultural or recreational activity.

■ Physical activities

A structured activity, other than an activity where a senior rides on or in a motor vehicle as an essential component of the activity, will be considered a physical activity, provided the activity contributes to the maintenance or development of cardiorespiratory endurance, muscular strength, muscular endurance, flexibility or balance.

Examples of eligible physical activities

The following activities, where they are offered as part of a recognized program and are structured, will be eligible physical activities for the purposes of the tax credit for seniors' activities:

- | | | |
|------------------------|-----------|--------------------|
| - aquatic gymnastics | - cycling | - horseback riding |
| - bowling | - dance | - swimming |
| - cross-country skiing | - golf | - tai chi |
| - curling | - hiking | - yoga |

■ Artistic, cultural or recreational activities

A structured activity, other than a physical activity, will be considered an artistic, cultural or recreational activity, if it:

- is intended to enhance seniors' ability to develop creative skills or expertise, acquire and apply knowledge, or improve dexterity or coordination, in an artistic or cultural discipline including:
 - literary arts (for example, poetry, novels, stories, narrative literature, and novellas),
 - visual arts (for example, photography, painting, drawing and sculpture),
 - crafts (for example, embroidery, sewing, crocheting, weaving and knitting),
 - singing, music or theatre,
 - languages;
- provides a substantial focus on wilderness and the natural environment;
- provides a substantial focus on the use of information and communication technologies;

- provides a focus on the acquisition of skills (for example, cooking, woodwork or making fishing flies);
- assists with the development and use of intellectual skills (for example, bridge, chess and Scrabble).

☐ Contents of the receipts required as proof of payment

Receipts issued by the person or partnership offering a recognized program of activities must contain the following information:

- the name and address of the entity offering the program;
- the name of the program or eligible activity;
- the total amount of the payment received, the date it was received, and the amount that is an eligible expense for the purposes of the refundable tax credit for seniors' activities;
- the payer's surname and given name;
- the surname and given name of the participant in the activity;
- an authorized signature, except in the case of an e-receipt.

☐ Application date

The refundable tax credit for seniors' activities will apply to amounts paid after the day of the budget speech for the registration or membership of an eligible individual in a recognized program of activities, provided the amounts are attributable to activities that take place after that day.

3. MEASURES TO OFFSET THE BUDGETARY IMPASSE

3.1 20% reduction in tax assistance intended for businesses

To restore order to public finances and ensure adequate funding of public services, it is imperative that the tax assistance allowed businesses be tightened.

Accordingly, the budget speech reduces tax assistance by some 20%. All the measures affected by this reduction as well as their new application parameters are described in this subsection.

3.1.1 Refundable tax credit for technological adaptation services

A corporation that carries on a business in Québec and has an establishment there can obtain, for a taxation year, a refundable tax credit for technology adaptation services of 50% of the cost of eligible liaison and transfer services carried out on its behalf under a contract it enters into with an eligible liaison and transfer centre or a college centre for technology transfer.

The tax legislation will be amended to reduce the rate of refundable tax credit for technology adaptation services to 40%.

This amendment will apply regarding expenditures incurred by an eligible corporation in relation to eligible liaison and transfer services in the course of a contract entered into with an eligible liaison and transfer centre or a college centre for technology transfer, as the case may be, after the day preceding the day of the budget speech.

3.1.2 Refundable tax credit for design

A corporation that carries on a business in Québec and has an establishment there may receive tax assistance consisting of a refundable tax credit for the design activities such corporation carries out or has carried out on its behalf in Québec, in relation to such business.

Briefly, the refundable tax credit for design applies regarding certain expenditures that an eligible corporation incurs to carry out design activities for goods that are made on an industrial basis.

The rate of the tax credit is 15% and may be increased up to 30% for a corporation that qualifies as an SME.³⁶ However, the amount of the tax credit is capped on an annual basis. In general, the maximum annual amount of this tax credit is \$9 000 in the case of work done by a designer and \$6 000 in the case of work done by a patternmaker. These amounts may be increased up to \$18 000 and \$12 000 respectively where the corporation qualifies as an SME.

36 An SME is a corporation whose assets, including the assets of associated corporations, do not exceed \$75 million for the preceding fiscal period. The rate is 30% up to assets of \$50 million. It is reduced gradually, reaching 15% where the corporation's assets amount to \$75 million.

In the context of the reduction of tax assistance applied to certain measures intended for businesses, the rate of this tax credit will be reduced by 20%.

More specifically, the tax legislation will be amended so that the rate of the refundable tax credit for design is reduced to 12%.

In the case of a corporation that qualifies as an SME, which may benefit from a rate ranging from 15% to 30% depending on the amount of its assets, this rate will range from 12% to 24% according to the same terms and conditions as currently apply. The following table illustrates the effect of this rate reduction.

TABLE 3

Illustration of the gradual reduction of the increased rate

Corporation's assets	Current rate	New rate
(\$ million)	(%)	(%)
50.0 or less	30.0	24.0
55.0	27.0	21.6
60.0	24.0	19.2
62.5	22.5	18.0
65.0	21.0	16.8
70.0	18.0	14.4
75.0	15.0	12.0

This change will apply in relation to eligible design activities carried out as of the day of the budget speech under an outside consulting contract entered into after the day preceding the day of the budget speech. It will also apply to the eligible salaries incurred by an eligible corporation after that day for designers and patternmakers it employs.

3.1.3 Refundable tax credits for the production of multimedia titles

An initial refundable tax credit relating to the production of multimedia titles (“tax credit – general component”) was introduced in the May 9, 1996 Budget Speech.³⁷ A corporation that wishes to receive this tax assistance must obtain the required certificates from Investissement Québec for each of the multimedia titles for which it intends to claim the tax credit.

In the March 31, 1998 Budget Speech, a second refundable tax credit applying specifically to corporations whose activities consist chiefly in producing multimedia titles (“tax credit – specialized component”) was implemented.³⁸ A corporation wishing to receive this tax credit must obtain the required certificates from Investissement Québec regarding all of its activities.

For the purposes of these two tax credits, the amount of assistance an eligible corporation may receive is determined on basis of the amount of the corporation’s eligible labour expenditure, to which is applied a percentage that depends on the category of multimedia titles produced by the corporation.

Under the current rules, the tax assistance granted to the producer of a multimedia title, according to the specific terms of each tax credit, is determined in accordance with the parameters described in the following table.

TABLE 4

Categories and rates before 20% reduction

	Base tax credit (depending on the eligible labour expenditure)	Plus: Premium for French (if applicable)
Category 1		
Multimedia title intended for commercialization and that is not an occupational training title	30.00%	7.50%
Category 2		
Other multimedia title including an occupational training title	26.25%	—

37 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1996-1997 – Budget Speech and Additional Information*, May 9, 1996, Appendix A, p. 45-48.

38 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1998-1999 – Additional Information on the Budgetary Measures*, March 31, 1998, Section 1, p. 46-50.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to stipulate the new rates of the tax credits applicable on the basis of categories 1 and 2, which remain unchanged. These rates are given in the following table.

TABLE 5

Categories and rates after the 20% reduction

	Base tax credit (depending on the eligible labour expenditure)	Plus: Premium for French (if applicable)
Category 1		
Multimedia title intended for commercialization and that is not an occupational training title	24%	6%
Category 2		
Other multimedia title including an occupational training title	21%	—

These changes will apply, regarding both for the tax credit – general component and the tax credit – specialized component, in relation to an eligible labour expenditure incurred after the day of the budget speech or regarding an eligible labour expenditure incurred under a contract entered into after the day preceding the day of the budget speech, as the case may be.

3.1.4 Refundable tax credit for major employment-generating projects

In the April 21, 2005 Budget Speech, a temporary refundable tax credit was introduced regarding major employment-generating projects in the information technology sector.³⁹

Briefly, this tax credit, whose rate is 25%, is granted to an eligible corporation regarding the eligible salaries it incurred and paid, after December 31, 2004 and before January 1, 2017, to an eligible employee⁴⁰ working at carrying out an eligible contract entered into before January 1, 2008. Such a corporation must hold an eligibility certificate from Investissement Québec confirming, on the one hand, that it operates in the information technology sector and, on the other, that it is reasonable to consider that the execution of the eligible contract entered into by such corporation will lead to the creation of a minimum of 150 jobs.

39 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2005-2006 – Additional Information on the Budgetary Measures*, April 21, 2005, Section 1, p. 96-101.

40 An eligible employee means an employee of an establishment in Québec of the eligible corporation for whom Investissement Québec issued an eligibility certificate certifying, among other things, that at least 75% of his duties consist in undertaking, supervising or directly supporting activities carried out in the course of an eligible contract.

Moreover, the current rules stipulate that the eligible salary, for an eligible employee, is limited to \$60 000 on an annual basis. Accordingly, the amount of the tax credit, for a taxation year, may not exceed \$15 000 per eligible employee on an annual basis.

Because of the reduction in tax assistance applied to certain measures intended for businesses, the rate of the refundable tax credit for major employment-generating projects will be reduced by 20%. Accordingly, the tax legislation will be amended to reduce the rate of this refundable tax credit to 20%. Consequently, the maximum amount of this refundable tax credit will henceforth be \$12 000 per eligible employee on an annual basis.

This change will apply regarding the eligible salary incurred by an eligible corporation in relation to an eligible employee, after the day of the budget speech under an eligible contract.

3.1.5 Refundable tax credit for job creation in the resource regions, the Vallée de l'aluminium and in Gaspésie and certain maritime regions of Québec

During 2000 and 2001, three tax credits were implemented to encourage job creation in Québec's resource regions. They are the refundable tax credit for the Vallée de l'aluminium,⁴¹ the refundable tax credit for Gaspésie and certain maritime regions of Québec⁴² and the refundable tax credit for processing activities in the resource regions.⁴³ Following changes made to how the tax assistance is determined, these three tax credits were combined into a single credit, i.e. the refundable tax credit for job creation in the resource regions, the Vallée de l'aluminium and in Gaspésie and certain maritime regions of Québec ("tax credit for job creation").⁴⁴

Briefly, this tax credit is granted regarding the increase in payroll attributable to the eligible employees of an eligible corporation. Such increase in payroll is determined, for a calendar year, in relation to the payroll paid by the eligible corporation to its eligible employees for its reference calendar year.

The rate of the tax credit for job creation applicable to all or part of the increase in payroll is determined on the basis of the activities of the recognized business of the corporation and the territories where such activities are carried out.

41 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2000-2001 – Additional Information on the Budgetary Measures*, March 14, 2000, Section 1, p. 46-52.

42 MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2000-8*, November 17, 2000, p. 1-8.

43 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2001-2002 – Additional Information on the Budgetary Measures*, March 29, 2001, Section 1, p. 37-44.

44 *Taxation Act* (CQLR, chapter I-3), sec. 1029.8.36.72.82.1.

❑ Processing activities in the resource regions

The tax credit for job creation regarding processing activities in resource regions is granted regarding the increase in payroll⁴⁵ attributable to the eligible employees of an eligible corporation operating in certain processing sectors in a resource region of Québec. The rate of this tax credit is 10% and the credit is available, regarding the activities of a recognized business carried out in certain resource regions,⁴⁶ until December 31, 2015.

To receive the tax credit for job creation for processing activities in the resource regions, an eligible corporation must have started to carry on its recognized business relating to the resource regions no later than March 31, 2008.

The tax legislation will be amended to reduce the rate of the tax credit for job creation for processing activities in the resource regions to 9% for calendar year 2014 and 8% for calendar year 2015.

❑ Vallée de l'aluminium

The rate of the tax credit for job creation in the Vallée de l'aluminium is 20%. The tax credit is granted for the increase in payroll attributable to the eligible employees of an eligible corporation operating in the administrative region of Saguenay–Lac-Saint-Jean, for certain activities relating to aluminum processing. It is available until December 31, 2015.

The tax legislation will be amended to reduce the rate of the tax credit for job creation in the Vallée de l'aluminium to 18% for calendar year 2014 and 16% for calendar year 2015.

❑ Gaspésie and certain maritime regions of Québec

The rate of the tax credit for job creation in Gaspésie and certain maritime regions of Québec is 20%. The tax credit is calculated on the increase in payroll attributable to the eligible employees of an eligible corporation carrying out its activities in the wind power sector in the Gaspésie–Îles-de-la-Madeleine administrative region or the La Matanie RCM, in the manufacturing sector in the Gaspésie–Îles-de-la-Madeleine administrative region or in the peat or slate processing sector in the Côte-Nord or Bas-Saint-Laurent administrative regions. It is available until December 31, 2015.

The tax legislation will be amended to reduce the rate of the tax credit for job creation in Gaspésie and certain maritime regions of Québec to 18% for calendar year 2014 and 16% for calendar year 2015.

45 In calculating the tax credit for job creation regarding processing activities in certain resource regions, the increase in payroll is determined taking an indexation factor into account.

46 These regions are the territories included in the following administrative regions, regional county municipalities (RCMs), urban agglomeration and city: Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, La Matapédia RCM, La Matanie RCM, La Mitis RCM, Maria-Chapdelaine RCM, Fjord-du-Saguenay RCM, Domaine-du-Roy RCM, urban agglomeration of La Tuque, Mékinac RCM, city of Shawinigan, La-Vallée-de-la-Gatineau RCM, Pontiac RCM and Antoine-Labelle RCM.

3.1.6 Refundable tax credit for job creation in Gaspésie and certain maritime regions of Québec in the fields of marine biotechnology, mariculture and marine products processing

The refundable tax credit for Gaspésie and certain maritime regions of Québec was introduced on November 17, 2000.⁴⁷ Various changes have been made to this tax credit, in particular regarding the calculation of the tax credit for corporations carrying on a recognized business in the marine biotechnology, mariculture or marine products processing sector.⁴⁸ The tax credit is then granted on the entire payroll attributable to eligible employees for a calendar year rather than on the increase in payroll. This tax credit is available until December 31, 2015.

The rate of the tax credit that applies to salaries attributable to the activities of a recognized business in the marine biotechnology or mariculture sector is 40% while the rate of the tax credit that applies to salaries attributable to the activities of a recognized business in the marine products processing sector is 20%.

The tax legislation will be amended so that the 40% rate applicable to the mariculture and marine biotechnology sectors is reduced to 36% for calendar year 2014 and 32% for calendar year 2015.

Similarly, the tax legislation will be amended so that the 20% rate that applies to the marine products processing sector is reduced to 18% for calendar year 2014 and 16% for calendar year 2015.

3.1.7 Refundable tax credit for resources

The refundable tax credit for resources was introduced in the March 29, 2001 Budget Speech.⁴⁹

Briefly, an eligible corporation that incurs eligible expenses, for a taxation year, may receive for such expenses, for such taxation year, the refundable tax credit for resources whose rate can reach 38.75%.

The rate of the tax credit an eligible corporation may claim in relation to the eligible expenses it incurs varies according to a number of parameters, including the type of resource to which the eligible expenses are connected, the place where such expenses are incurred, as well as the type of corporation that incurs such expenses.

The following table shows the rates that currently apply depending on these parameters.

47 See note 42.

48 *Taxation Act* (CQLR, chapter I-3), sec. 1029.8.36.72.82.13.

49 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2001-2002 – Additional Information on the Budgetary Measures*, March 29, 2001, Section 1, p. 50-55.

TABLE 6

**Rates of the refundable tax credit for resources
before the 20% reduction**
(per cent)

	Corporation not operating a mineral resource or oil or gas well ⁽¹⁾	Other corporation
Tax credit regarding eligible expenses:		
– relating to mining resources, oil and natural gas:		
▪ in the Mid-North or Far North	38.75	18.75
▪ elsewhere in Québec	35.00	15.00
– relating to renewable energy and energy conservation	35.00	30.00
– relating to other natural resources (cut stone)	15.00	15.00

(1) Such corporation must not be part of an associated group within which a member operates a mineral resource or an oil or gas well.

In the context of the reduction in tax assistance applied to certain measures intended for businesses, the rates of the refundable tax credit for resources will be reduced by 20%. Accordingly, following this reduction, the rates of the refundable tax credit for resources will be as shown in the following table.

TABLE 7

**Rates of the refundable tax credit for resources
after the 20% reduction**
(per cent)

	Corporation not operating a mineral resource or oil or gas well ⁽¹⁾	Other corporation
Tax credit regarding eligible expenses:		
– relating to mining resources, oil and natural gas:		
- in the Mid-North or Far North	31	15
- elsewhere in Québec	28	12
– relating to renewable energy and energy conservation	28	24
– relating to other natural resources (cut stone)	12	12

(1) Such corporation must not be part of an associated group within which a member operates a mineral resource or an oil or gas well.

This reduction in the rates of the refundable tax credit for resources will apply regarding eligible expenses incurred after the day of the budget speech.

3.1.8 Tax benefits relating to flow-through shares

Briefly, the flow-through share regime allows a taxpayer who acquires a flow-through share to receive a base deduction equal to 100% of his acquisition cost, insofar as the financing thus obtained by the issuing corporation is used to defray the cost of exploration or development work in Canada and the expenses incurred are renounced by the corporation in favour of the shareholder.

The flow-through share regime also stipulates two additional deductions. Accordingly, where exploration expenses are incurred in Québec, the shareholder may claim an additional deduction of 25%. Furthermore, he may claim another additional deduction of 25% where the expenses incurred by the issuing corporation, from the proceeds obtained from issuing the flow-through share, are surface mining exploration or oil and gas exploration expenses incurred in Québec.

For the shareholder to have access to these additional deductions, the issuing corporation must not, at the time it incurred the expenses and throughout all of the preceding 12 months, have operated a mineral resource or an oil or gas well. Similarly, during such period, it must not be part of an associated group within which a member operated a mineral resource or an oil or gas well.

The flow-through share regime also enables an individual to receive, in certain cases, other benefits such as the additional deduction for certain issue expenses.

Accordingly, briefly, where a corporation makes a public offering of flow-through shares, it renounces the deduction of the issue expenses incurred for such issue and such expenses relate to shares the proceeds of which will be used to incur exploration expenses in Québec, the acquirers of such flow-through shares are allowed an additional deduction in an amount equal to the lesser of the issue expenses incurred by the corporation or 15% of the proceeds of the issue of the flow-through shares.

In the context of the 20% reduction in tax assistance applied to certain measures intended for businesses, a correlative reduction will be applied to the additional deductions allowed under the flow-through share regime.

Additional deductions for certain exploration expenses incurred in Québec

The reduction in assistance relating to the additional deductions regarding certain exploration expenses incurred in Québec allowed under the flow-through share regime will be comparable to that applied to the refundable tax credit for resources⁵⁰ since the rates of this tax credit were set on the basis of the maximum assistance available under the flow-through share regime.

Consequently, the rates of the two additional deductions will be reduced proportionally to reduce the tax benefit tied to the additional deductions by a total of 20%. Accordingly, the deductions an individual may claim will be equal to 110% or 120%, as the case may be, for mining, oil or gas exploration expenses incurred in Québec.

50 See subsection 3.1.7.

More specifically, these deductions will be allocated as follows:

- a base deduction of 100% of Canadian exploration expenses or Canadian development expenses;
- where the investor is an individual, in addition to the base deduction of 100%:
 - in the case of mining exploration expenses incurred in Québec:
 - an initial additional deduction of 10%,
 - a second additional deduction of 10% for surface expenses;
 - in the case of oil or gas exploration expenses incurred in Québec, additional deductions totalling 20%.

□ Additional deduction for certain issue expenses

For the calculation of the additional deduction for certain issue expenses allowed the acquirers of flow-through shares, the limit of 15% of the proceeds of the issue of flow-through shares will be replaced with a limit of 12% of the proceeds of the issue of such shares.

□ Application date

These reductions will apply regarding flow-through shares issued after the day of the budget speech. However, they will not apply regarding flow-through shares issued after this day where they are issued either further to a placement made no later than the day of the budget speech or pursuant to an interim prospectus receipt application or a prospectus exemption application, as the case may be, made no later than the day of the budget speech.

3.1.9 Refundable tax credit for international financial centres

The refundable tax credit for international financial centres (IFCs) was introduced in the March 30, 2010 Budget Speech to encourage businesses specializing in international financial transactions to locate and develop in the Montréal urban agglomeration.⁵¹

For the purposes of this measure, an IFC is a business or part of a business established in the Montréal urban agglomeration all of whose activities bear on qualified international financial transactions (QIFTs) within the meaning of the *Act respecting international financial centres*.⁵²

51 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2010-2011 – Additional Information on the Budgetary Measures*, March 30, 2010, p. A.53-A.62.

52 CQLR, chapter C-8.3, sec. 7.

Briefly, a qualified corporation that carries on a business recognized as an IFC by the Minister of Finance may claim a refundable tax credit, for a taxation year, representing 30% of the eligible salaries incurred for such year regarding eligible employees. However, the eligible salary of an eligible employee may not exceed \$66 667 annually. Accordingly, the tax credit can reach \$20 000 per eligible employee annually. To be eligible, an employee must work full-time for the IFC and allocate at least 75% of his work time to carrying out qualified international financial transactions.

In the context of the reduction in tax assistance applied to certain measures intended for businesses, the rate of this tax credit will be reduced by 20%.

More specifically, the tax legislation will be amended so that the rate of the refundable tax credit for IFCs is equal to 24% of the eligible salaries incurred by a qualified corporation regarding eligible employees. Consequently, the maximum amount of this refundable tax credit will henceforth be \$16 000 per eligible employee annually.

This change will apply to the eligible salary incurred by a qualified corporation regarding an eligible employee after the day of the budget speech.

3.1.10 Refundable tax credit relating to a new financial services corporation

The refundable tax credit relating to a new financial services corporation was introduced on a temporary basis in the March 20, 2012 Budget Speech.⁵³

Briefly, this tax credit, whose rate is 40%, is granted, for a taxation year, regarding the eligible expenses incurred by an eligible corporation during the validity period of its eligibility certificate issued by the Minister of Finance that is included in such taxation year. However, the eligible expenses may not exceed \$375 000 on an annual basis. Accordingly, this tax credit may reach \$150 000 annually.

The tax legislation will be amended to reduce the rate of the refundable tax credit relating to a new financial services corporation to 32%. Consequently, the maximum amount of this refundable tax credit will henceforth be \$120 000 annually.

This change will apply regarding the eligible expenses incurred by an eligible corporation after the day of the budget speech.

3.1.11 Refundable tax credit for the hiring of employees by a new financial services corporation

The refundable tax credit for the hiring of employees by a new financial services corporation was introduced on a temporary basis in the March 20, 2012 Budget Speech.⁵⁴

53 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, p. 46-48.

54 *Ibid.*, p. 42-46.

Briefly, for a taxation year, this tax credit is equal to 30% of the eligible salaries incurred by an eligible corporation during the validity period of its eligibility certificate issued by the Minister of Finance that is included in such taxation year. However, the eligible salary of an eligible employee may not exceed \$100 000 annually. Accordingly, the tax credit can reach \$30 000 per eligible employee annually.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to reduce the rate of this refundable tax credit to 24%. Accordingly, the maximum amount of this refundable tax credit will henceforth be \$24 000 per eligible employee.

This change will apply regarding the eligible salary incurred by an eligible corporation regarding an eligible employee after the day of the budget speech.

3.1.12 Refundable tax credit pertaining to the diversification of markets of Québec manufacturing companies

The refundable tax credit pertaining to the diversification of markets of Québec manufacturing companies is temporary and is intended to support Québec manufacturing companies that want to commercialize their products in markets outside Québec.

This tax credit applies to the eligible certification expenses of an eligible good that a corporation incurs before January 1, 2016 in relation to the certification of such good that it obtains before January 1, 2017.

Accordingly, a corporation that carries on a business in Québec and has an establishment there and that holds an eligibility certificate issued by Investissement Québec confirming that such corporation carries out eligible activities may receive a refundable tax credit equal to 30% of the eligible certification expenses the corporation incurred regarding an eligible good.

However, the total amount of this tax credit an eligible corporation may receive for the duration of the tax credit regarding one or more eligible goods, as the case may be, is limited to \$45 000.

The tax legislation will be amended to reduce the rate of the refundable tax credit pertaining to the diversification of markets of Québec manufacturing companies by 20%, thus reducing the rate of the tax credit to 24%.

This amendment will apply regarding the eligible certification expenses a corporation incurs regarding an eligible good under a contract entered into after the day preceding the day of the budget speech.

In addition, the cumulative limit of \$45 000 that applies to a corporation for the duration of this tax credit will be reduced to \$36 000.

This change will apply to a taxation year of a corporation beginning after the day of the budget speech.

3.1.13 Refundable tax credit to foster the modernization of the tourism accommodation offering

The refundable tax credit to foster the modernization of the tourism accommodation offering was implemented as part of March 20, 2012 Budget Speech to consolidate the tourism accommodation offering in Québec's regions outside the greater Montréal and Québec City regions.⁵⁵

Briefly, this 25% tax credit is granted to an eligible corporation that owns a hotel establishment, a tourist home, a resort, a bed and breakfast establishment or youth hostel located in Québec, outside the metropolitan Montréal and Québec City census regions,⁵⁶ and that carries out renovation or improvement work on such an establishment before January 1, 2016. Similarly, it is granted to a corporation that is a member of an eligible partnership that owns such an establishment and that carries out such work before January 1, 2016.

The tax credit of an eligible corporation, or a corporation that is a member of an eligible partnership, for a taxation year, is calculated on the total of the corporation's eligible expenditures, for the taxation year, and of its share of the eligible expenditures of the eligible partnership of which it is a member, for a fiscal period ended in the taxation year, that exceeds an annual threshold of \$50 000. The eligible expenditures of a corporation, for a taxation year, and of a partnership, for a fiscal period, are capped at \$750 000.⁵⁷

In the context of the reduction in tax assistance applicable to certain measures intended for businesses, the rate of the refundable tax credit to foster the modernization of the tourism accommodation offering will be reduced by 20%. Moreover, the annual threshold of \$50 000 of eligible expenditures regarding which an eligible corporation may not claim the tax credit will be replaced with a single threshold of \$50 000.

□ Reduction in tax assistance

The tax legislation will be amended to reduce the rate of the refundable tax credit to foster the modernization of the tourism accommodation offering to 20%.

This reduction in the rate of the tax credit will apply regarding an eligible expenditure incurred by an eligible corporation or by an eligible partnership after the day of the budget speech.

However, it will not apply to such an expense incurred after the day of the budget speech, but before July 1, 2015, if the eligible expenditure is incurred under an eligible contract entered before the day of the budget speech.

55 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, p. 57-67.

56 The list of municipalities included in the metropolitan census regions of Montréal and Québec City is given in: *Standard Geographical Classification (SGC)*, Volume 1, The Classification, 2011, no. 12-571-X in the catalogue, p. 107-109. This volume is available on Statistics Canada's website at www.statcan.gc.ca/pub/12-571-x/12-571-x2011001-eng.pdf.

57 Where a corporation is a member of an associated group, in a taxation year, the annual limit on eligible expenditures of \$750 000 must be covered by a sharing agreement among the members of the associated group.

❑ **Change to the \$50 000 annual threshold**

The tax legislation will be amended so that the annual threshold of \$50 000 of eligible expenditures regarding which an eligible corporation may not claim the refundable tax credit to foster the modernization of the tourism accommodation offering is replaced with a single threshold of \$50 000.

Accordingly, the amount regarding which an eligible corporation or a corporation that is a member of an eligible partnership may claim this tax credit, for a taxation year, will correspond to the amount by which the total of the eligible expenditures of the eligible corporation, for the taxation year, and of the corporation's share of the eligible expenditures of the eligible partnership of which it is a member, for a fiscal period ended in the taxation year, subject to the limit on eligible expenditures, exceeds the balance of the threshold of \$50 000 of the corporation for the taxation year.

The balance of a corporation's \$50 000 threshold, for a taxation year, will correspond to the amount by which \$50 000 exceeds the portion of the \$50 000 threshold applied by the corporation against eligible expenditures for its prior taxation years.

The portion of the \$50 000 threshold applied against the eligible expenditures of a corporation, for its prior taxation years, will correspond to the amount by which the total of the eligible expenditures of the eligible corporation, for its prior taxation years, and of the corporation's share of the eligible expenditures of the eligible partnership of which it is a member, for the fiscal periods ended in its prior taxation year, subject to the limit on eligible expenditures applicable for such taxation years and such fiscal periods, exceeds the portion of such expenditures regarding which the corporation received the refundable tax credit to foster the tourism accommodation offering.

This change will apply to a taxation year of a corporation ending after December 31, 2013.

Moreover, in the context of the reduction of the rate of the refundable tax credit to foster the modernization of the tourism accommodation offering, the balance of the threshold of \$50 000 of eligible expenses regarding which a corporation may claim the tax credit, for a taxation year, will reduce, in the first place, its eligible expenses and its share of the eligible expenditures of a partnership incurred no later than the day of the budget speech or under an eligible contract entered into before that day.

3.1.14 Refundable tax credit for Québec film and television production

In general, the refundable tax credit for Québec film and television production applies to the labour expenditures incurred by an eligible corporation that produces a Québec film and corresponds to 45% or 35% of the eligible labour expenditure incurred to produce the film ("base rate"). However, the labour expenditure giving rise to the tax credit may not exceed 50% of the film's production expenses.

Accordingly, the 45% base rate applies regarding the labour expenditure related to the production of certain feature-length, medium or short films, certain broadcasts intended for young people and certain documentaries, provided they are in French; this also applies for giant-screen films, regardless of the language (“French-language or giant-screen production”).

Moreover, the 35% base rate applies to the production of other categories of eligible films.

In addition, the expenditure related to the carrying out of computer animation and special effects – other than such an expenditure incurred in the context of a French-language or giant-screen production – gives rise to a 10% increase in such expenditure (“increase for computer animation and special effects”).

Moreover, specific assistance (“regional increase”) is granted to producers established outside the Montréal region when the film is made in the regions. This assistance consists of a 10% increase in the labour expenditure attributable to services provided in Québec, outside the Montréal region, in the course of making a French-language or giant-screen production. For the other categories of eligible films, this increase can reach 20% of the same labour expenditure.

Lastly, a 10% increase (“increase for no public financial assistance”) calculated on the labour expenditure giving rise to the tax credit is allowed for a production that is eligible for the tax credit and is a feature film of fiction⁵⁸ or a single documentary, provided it is not eligible for any financial assistance from a public organization.

However, the maximum tax assistance that may be obtained may not exceed 65% of the eligible labour expenditure.

58 A miniseries or a series each of whose episodes is a fiction production lasting a minimum of 75 minutes is an eligible production for the purposes of this increase.

The following table shows the rates of the refundable tax credit for Québec film and television production, before the 20% reduction.

TABLE 8

Base rate and rates of the increases before the 20% reduction
(per cent)

	Rate of the tax credit						Effective rate ⁽³⁾	
	Base rate	Increase for computer animation and special effects	Regional increase	Increase for no public financial assistance ⁽¹⁾	Maximum rate	Labour expenditure cap		
							As a % of labour expenditure	As a % of production expenses
French-language or giant-screen production	45	—	10	10	65	50	22.5	32.5 ⁽⁴⁾
Other production	35	10	20	10	65 ⁽²⁾	50	17.5	32.5 ⁽⁵⁾

(1) This increase applies to a Québec film or television production that is a feature film of fiction or a single documentary that has not received any financial assistance from a public organization.

(2) Where all or part of the labour expenditure gives rise to more than one increase, the total cannot exceed 65%.

(3) The effective rate is obtained by multiplying the rate of the tax credit, expressed as a function of labour expenditure, by the rate of the cap, expressed as a function of production expenses.

(4) To determine the maximum assistance, it is assumed that the labour expenditure giving rise to the base rate also gives rise to the regional increase and the increase for no public financial assistance.

(5) To determine the maximum assistance, it is assumed that the labour expenditure giving rise to the base rate also gives rise to the regional increase and, as the case may be, for computer animation and special effects or the increase for no public financial assistance.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to stipulate the rates of the refundable tax credit for Québec film and television production that are given in the following table.

TABLE 9

Base rate and rates of the increases after the 20% reduction

(per cent)

	Rate of the tax credit							Effective rate ⁽³⁾	
	Base rate	Increase for computer animation and special effects	Regional increase	Increase for no public financial assistance ⁽¹⁾	Maximum rate	Labour expenditure cap			
							As a % of labour expenditure	As a % of production expenses	Minimum
French-language or giant-screen production	36	—	8	8	52	50	18	26 ⁽⁴⁾	
Other production	28	8	16	8	52 ⁽²⁾	50	14	26 ⁽⁵⁾	

(1) This increase applies to a Québec film or television production that is a feature film of fiction or a single documentary that has not received any financial assistance from a public organization.

(2) Where all or part of the labour expenditure gives rise to more than one increase, the total cannot exceed 52%.

(3) The effective rate is obtained by multiplying the rate of the tax credit, expressed as a function of labour expenditure, by the rate of the cap, expressed as a function of production expenses.

(4) To determine the maximum assistance, it is assumed that the labour expenditure giving rise to the base rate also gives rise to the regional increase and the increase for no public financial assistance.

(5) To determine the maximum assistance, it is assumed that the labour expenditure giving rise to the base rate also gives rise to the regional increase and, as the case may be, for computer animation and special effects or the increase for no public financial assistance.

These changes will apply regarding a film or television production for which an application for an advance ruling, or an application for a certificate, if an application for an advance ruling was not filed earlier, is submitted to the Société de développement des entreprises culturelles (SODEC):

- after the day of the budget speech if SODEC considers that the work on the production was not sufficiently advanced on the day of the budget speech;
- after August 31, 2014, otherwise.

3.1.15 Refundable tax credit for film production services

The refundable tax credit for film production services applies to the eligible production expenses relating to the various stages of making a foreign production or a Québec production that, for example, does not satisfy the Québec content criteria that give rise to the refundable tax credit for Québec film and television production.

In general, the base tax credit is calculated at 25% of all of the eligible production expenses incurred by an eligible corporation in Québec and attributable to the various stages of making an eligible production. Eligible production expenses correspond to the total of the eligible labour cost and the cost of eligible goods.

Moreover, the increase for special effects and computer animation for an eligible production is calculated at a rate of 20% on the eligible labour cost, provided such cost relates to eligible activities tied to the completion of computer animation and special effects for use in the eligible production.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to stipulate that:

- the rate of the base tax credit will be 20%;
- the rate of the increase for computer animation and special effects will be 16%.⁵⁹

These changes will apply regarding an eligible production or eligible small-budget production for which an application for an approval certificate is filed with SODEC:

- after the day of the budget speech if SODEC considers that the work on the production was not sufficiently advanced on the day of the budget speech;
- after August 31, 2014, otherwise.

3.1.16 Refundable tax credit for film dubbing

The refundable tax credit for film dubbing applies to the expense of dubbing an eligible film, which consists of labour expenditures relating to certain services provided in Québec and inherent in the process of dubbing film or television productions.

This tax credit is equal to 35% of a corporation's expense for dubbing films, which expense, however, is limited to 45% of the consideration paid to the corporation for carrying out the dubbing contract, excluding the goods and services tax and the Québec sales tax.

59 The tax assistance will also be reduced in the case of an eligible small-budget production, such assistance then being limited to the increase for computer animation and special effects calculated at 20% on the eligible labour expenditure for computer animation and special effects. Consequently, the rate will decline from 20% to 16%.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to stipulate that the rate of the tax credit applicable to an eligible expenditure for film dubbing will be 28%.

This change will apply regarding a production for which dubbing is completed after August 31, 2014.

3.1.17 Refundable tax credit for sound recording production

The refundable tax credit for sound recording production is equal to 35% of the amount of the eligible labour expenditure relating to an eligible property that is a sound recording, a digital audiovisual recording or a clip, which expenditure, however, is limited to 50% of the expenses directly attributable to the production of the property concerned.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to stipulate that the rate of the tax credit applicable to an eligible labour expenditure will be 28%.

This change will apply regarding an eligible property for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was filed earlier, regarding such property, is submitted to SODEC:

- after the day of the budget speech if SODEC considers that the work on the production of such property was not sufficiently advanced on the day of the budget speech;
- after August 31, 2014, otherwise.

3.1.18 Refundable tax credit for the production of shows

The refundable tax credit for the production of shows covers the labour expenditures attributable to services supplied for the production of an eligible show.⁶⁰ The tax credit is equal to 35% of the amount of eligible labour expenditures, which are limited, however, to 50% of the production expenses of the show.

Furthermore, the tax credit, for an eligible show, can at no time exceed \$1.25 million where the eligible show is a musical comedy and \$750 000 otherwise.

An eligible corporation that intends to claim the tax credit for a show must obtain from SODEC, for each of the following periods, a favourable advance ruling, if applicable, and a certificate to the effect that the show is recognized as an eligible show:

- the period covering the pre-production of the show until the end of the first year following its initial public performance (“initial eligibility period”);
- the period covering the second year following the show’s initial public performance;

60 A musical, drama or aquatic show, a comedy, mime, magic or circus show, or an ice show.

- the period covering the third year following the show's initial public performance.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to stipulate that:

- the rate of the tax credit applicable to an eligible labour expenditure will be 28%;
- the tax credit, for an eligible show, may at no time exceed \$1 million where the eligible show is a musical comedy and \$600 000 otherwise.

These changes will apply regarding a show for which an application for an advance ruling in relation to the initial eligibility period, or an application for a certificate if no application for an advance ruling was filed earlier regarding such period, is submitted to SODEC:

- after the day of the budget speech if SODEC considers that the work on the production of such show was not sufficiently advanced on the day of the budget speech;
- after August 31, 2014, otherwise.

3.1.19 Refundable tax credit for book publishing

The refundable tax credit for book publishing is equal to:

- 35% of the eligible labour expenditure regarding the preparation costs and digital version publishing costs of an eligible book or eligible group of books, which, however, is limited to 50% of such costs;
- 27% of the eligible labour expenditure regarding the printing and reprinting costs of such a book or group of books, which, however, is limited to 33 ⅓% of such costs.

In addition, the tax credit, for an eligible book or a book that is part of an eligible group of books, may in no event exceed \$437 500.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to stipulate that:

- the rates of the tax credit applicable to an eligible labour expenditure will be 28% and 21.6% respectively;
- the tax credit, for an eligible book or a book that is part of an eligible group of books henceforth may not exceed \$350 000.

These changes will apply regarding a book or a book that is part of an eligible group of books for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was filed earlier regarding such book or such eligible group of books, is submitted to SODEC:

- after the day of the budget speech if SODEC considers that the work on the preparation of such book or such book that is part of an eligible group of books was not sufficiently advanced on the day of the budget speech;
- after August 31, 2014, otherwise.

3.1.20 Tax credit for the production of multimedia environments or events staged outside Québec

To support the international growth potential of certain Québec companies, a refundable tax credit for the production of multimedia environments or events staged outside Québec – which events must offer an educational or cultural experience for entertainment purposes – was introduced on March 20, 2012, regarding an eligible labour expenditure incurred after that day but before January 1, 2016.⁶¹

Briefly, an eligible corporation may claim a tax credit equal to 35% of the eligible labour expenditure it incurs to carry out an eligible production. However, the labour expenditure giving rise to the tax credit may not exceed 50% of the production expenses. In addition, the tax credit allowed regarding a production is limited to \$350 000.

Furthermore, in the case of a multimedia environment, the eligible production expenses of a corporation for a taxation year may not exceed 75% of the consideration the corporation received in the course of execution of the contract in relation to the design and completion of the environment.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to stipulate that:

- the rate of the tax credit applicable to an eligible labour expenditure will be 28%;
- the tax credit, for an eligible production, henceforth may not exceed \$280 000.

These changes will apply regarding a production for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was filed earlier, is submitted to SODEC:

- after the day of the budget speech if SODEC considers that the work on the production was not sufficiently advanced on the day of the budget speech;
- after August 31, 2014, otherwise.

61 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, p. 72-77.

3.1.21 Refundable tax credit for on-the-job training periods

An eligible taxpayer may, under certain conditions, claim a refundable tax credit for on-the-job training periods where a student carries out an eligible training period with a business it carries on in Québec or that a partnership of which it is a member carries on in Québec.

The base rates of this tax credit are 30% of an eligible expenditure where the eligible taxpayer is a corporation and 15% where the eligible taxpayer is an individual. However, where the eligible trainee is a handicapped person or an immigrant, these rates are raised to 40% and 20% respectively.

Briefly, the eligible expenditure consists of the wage or salary paid to the trainee and the wage or salary paid to an eligible supervisor, such wages and salaries, however, being subject to a maximum hourly rate. The eligible expenditure is also subject to a weekly cap that depends on the training period and the trainee concerned.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to stipulate that:

- the base rates will be 24% and 12% respectively;
- the higher rates will be 32% and 16% respectively.

These changes will apply regarding an eligible expenditure incurred after the day of the budget speech in relation to an eligible training period beginning after that day.

3.1.22 Refundable tax credit for manpower training in the manufacturing, forest and mining sectors

The refundable tax credit for manpower training in the manufacturing,⁶² forest and mining⁶³ sectors is designed to support the efforts of businesses that contribute to develop the skills of their employees.

Briefly, an eligible employer can claim a refundable tax credit, for a taxation year, equal, for each eligible employee, to 30% of an eligible training expenditure incurred regarding such eligible employee during such taxation year.

An eligible employer, for a taxation year, means a corporation, other than an excluded corporation, or a partnership, which, during the year, has an establishment in Québec and carries on an eligible activity there, i.e. an activity relating to the manufacturing sector, the forest sector or the mining sector.

This tax credit applies regarding an eligible training expenditure incurred:

- after November 23, 2007 for the manufacturing sector and after March 19, 2009 for the forest and mining sectors;
- before January 1, 2016.

62 MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2007-9*, November 23, 2007, p. 3.

63 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2009-2010 – Additional Information on the Budgetary Measures*, March 19, 2009, p. A.25.

In addition, the eligible training expenditure must relate to eligible training beginning:

- after November 23, 2007 for the manufacturing sector and after March 19, 2009 for the forest and mining sectors;
- before January 1, 2016.

Because of the 20% reduction in tax assistance applied to certain measures intended for businesses, the tax legislation will be amended to stipulate that the rate of the tax credit applicable to an eligible training expenditure will be 24%.

These changes will apply regarding an eligible training expenditure incurred under an eligible training contract entered into after the day preceding the day of the budget speech.

3.2 Other measures tightening tax assistance intended for businesses

3.2.1 Measures concerning scientific research and experimental development

❑ 20% reduction in tax assistance

A person who carries on a business in Canada and carries out in Québec, or has carried out on his behalf in Québec, scientific research and experimental development (R&D) under a contract, may receive various refundable tax credits.

The first refundable tax credit, commonly known as “R&D salary”, applies, among others, to the salary a person pays its employees, when he carries out his R&D work in Québec, or to half the amount of the research contract, where the R&D work is awarded to a subcontractor at arm’s length with such person. The rate of this refundable tax credit is 17.5%, but may rise to as much as 37.5% in the case of a Canadian-controlled corporation.⁶⁴

The second refundable tax credit, commonly known as “R&D university”, applies, among others, to 80% of the amount of a research contract where the R&D work is subcontracted to an eligible university entity, an eligible public research centre or an eligible research consortium to which the person awarding the R&D subcontract is not related. The rate of this tax credit is 35%.

The third refundable tax credit concerns precompetitive research carried out in private partnership. This refundable tax credit applies to R&D work that a number of persons agree to do jointly in Québec or have done for their benefit in Québec under a research contract. The rate of this tax credit is 35%.

64 Briefly, this is a Canadian-controlled corporation with assets, taking into account the assets of associated corporations, of less than \$75 million for the preceding fiscal period. More specifically, where such assets are \$50 million or less, the rate is 37.5%, reducing linearly to 17.5% for assets ranging from \$50 million to \$75 million. The higher rate applies solely to the first \$3 million of eligible R&D spending.

The fourth refundable tax credit concerns contributions paid to an eligible research consortium. Essentially, this refundable tax credit applies to the contributions a person pays to an eligible research consortium and that can reasonably be considered to relate to the R&D work done by the consortium in relation to a business of such person. The rate of this tax credit is 35%.

In the context of the reduction in tax assistance applied to certain measures intended for businesses, the rate of these refundable tax credits for R&D will be reduced by 20%.

More specifically, the tax legislation will be amended so that, on the one hand, the rate of the R&D salary tax credit is reduced to 14% and, on the other, the rate of the R&D university tax credit, the tax credit concerning precompetitive research carried out in private partnership and the tax credit concerning contributions paid to an eligible research consortium is reduced to 28%.

In the case of the R&D salary tax credit, regarding which a Canadian-controlled corporation may benefit from a rate varying from 17.5% to 37.5% depending on the amount of its assets, this rate will be reduced to range from 14% to 30%, according to the same terms as currently obtain. The following table illustrates the effect of this rate reduction.

TABLE 10

Illustration of the gradual reduction of the increased rate

Corporation's assets	Current rate	New rate
(\$ million)	(%)	(%)
(50.0 or less)	37.5	30.0
55.0	33.5	26.8
60.0	29.5	23.6
62.5	27.5	22.0
65.0	25.5	20.4
70.0	21.5	17.2
75.0	17.5	14.0

This change will apply to R&D expenditures incurred after the day of the budget speech or regarding R&D expenditures incurred under a research contract entered into after the day preceding the day of the budget speech, as the case may be.

❑ Elimination of the increase from 17.5% to 27.5% in the rate of the refundable tax credit for R&D salary in relation to biopharmaceutical activities

An eligible biopharmaceutical corporation may receive, for a taxation year, a refundable tax credit for R&D salary equal to 27.5% of its eligible R&D expenditures for such year.⁶⁵

To give full effect to the increase in the rate of this tax credit, an eligible biopharmaceutical corporation that is a Canadian-controlled corporation⁶⁶ and that benefits from an increase in the rate of this tax credit of up to 37.5% continues to benefit from the increase in the rate, which is reduced linearly from 37.5% to 27.5%, where its assets calculated according to the rules applicable to such increase range from \$50 to \$75 million.

To qualify as an eligible biopharmaceutical corporation, a corporation must obtain an initial certificate from Investissement Québec. It must also obtain an eligibility certificate from Investissement Québec regarding each taxation year for which it wishes to benefit from the increased rate of the refundable tax credit for R&D salary.

This increase in the rate of the tax credit for R&D salary will be eliminated as of the day of the budget speech. Accordingly, Investissement Québec will not accept applications for an initial certificate submitted by a corporation as of that day.

In addition, Investissement Québec will no longer issue an annual certificate for a taxation year of a corporation beginning after the day of the budget speech.

However, a corporation previously recognized by Investissement Québec as an eligible biopharmaceutical corporation may continue to benefit from the increase in the rate of the refundable tax credit for R&D salary for its taxation year including the day of the budget speech.

However, like the reduction in assistance applicable to all refundable tax credits for R&D, the current increase will be reduced by 20%.

The rate of the tax credit will therefore be reduced to 22%.

In the case of a Canadian-controlled corporation, the increase in the rate of this tax credit will vary from 22% to 30%, according to the same terms as currently obtain. The following table illustrates the effect of this rate reduction.

65 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Budget 2013-2014 – Budget Plan*, November 20, 2012, p. H.36-H.40.

66 See note 64.

TABLE 11

Illustration of the gradual reduction of the increased rate

Corporation's assets	Current rate	New rate
(\$ million)	(%)	(%)
(50.0 or less)	37.5	30.0
55.0	35.5	28.4
60.0	33.5	26.8
62.5	32.5	26.0
65.0	31.5	25.7
70.0	29.5	23.6
75.0	27.5	22.0

This change will apply to R&D expenditures incurred after the day of this budget speech or regarding R&D expenditures incurred under a research contract entered into after the day preceding the day of the budget speech, as the case may be.

3.2.2 Refundable tax credit for the development of e-business

The refundable tax credit for the development of e-business (the "TCEB") is designed to consolidate the development of the information technology sector in Québec as a whole.

Briefly, the TCEB, whose rate is 30%, is granted to a qualified corporation that pays salaries to eligible employees carrying out an eligible activity. The amount of the tax credit may not exceed \$20 000 per employee annually.

In *Information Bulletin 2013-7*, it was announced that the TCEB would be extended for ten years, i.e. until December 31, 2025 and that the annual cap of \$20 000 per employee would be raised to \$22 500 as of January 1, 2016.⁶⁷

In the context of the reduction in tax assistance applied to certain measures intended for businesses, the rate of this tax credit will be reduced to 24%. This change will apply to salaries incurred regarding an eligible employee after the day of the budget speech.

In addition, the annual cap of \$20 000 per employee will be maintained at that amount and will not be raised to \$22 500 as of January 1, 2016.

67 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin 2013-7*, July 11, 2013, p. 9-11.

3.2.3 Tax credit for investments relating to manufacturing and processing equipment

Briefly, a qualified corporation,⁶⁸ for a taxation year, that acquires qualified property may receive, regarding the eligible expenses it incurred, the tax credit for investments relating to manufacturing and processing equipment (“tax credit for investments”).

The base rate of the tax credit for investments is 5%. This rate may rise to 40% where the qualified property is acquired for use mainly in a remote zone.⁶⁹ It can reach 30% or 35% where the qualified property is acquired for use mainly in the eastern part of the Bas-Saint-Laurent administrative region,⁷⁰ depending on whether or not the corporation, or a corporation with which it is associated, receives the refundable tax credit for job creation in the resource regions, the Vallée de l’aluminium or Gaspésie and certain maritime regions of Québec (“tax credit for job creation”). The base rate can be increased to 20% or 25% where the qualified property is acquired for use mainly in an intermediate zone,⁷¹ depending on whether or not the corporation, or a corporation with which it is associated, receives the tax credit for job creation. It can reach 10% otherwise.

The tax credit for investments to which an eligible corporation is entitled, for a taxation year, can be deducted from its income tax otherwise payable for such taxation year. The portion of the tax credit for investments relating to a taxation year that cannot be applied against income tax payable by the corporation for such taxation year may be refunded, in whole or in part, or carried over.

For a qualified corporation to benefit fully from a higher rate and the refundable nature of the tax credit for a taxation year, its paid-up capital,⁷² for such taxation year, must not exceed \$250 million. The increase in the rate of the tax credit and the refundable portion of the tax credit decrease linearly for paid-up capital between \$250 million and \$500 million. A corporation whose paid-up capital reaches \$500 million can receive only the base rate of 5% and no part of the tax credit is refundable.

68 A corporation that is a member of a qualified partnership that acquires qualified property may receive the tax credit for investments in proportion to its share of the partnership’s income or loss.

69 Remote zones consist of the following administrative regions: Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie-Îles-de-la-Madeleine.

70 The eastern portion of the Bas-Saint-Laurent administrative region consists of the following regional county municipalities (RCMs): La Matapédia, La Mitis and La Matanie.

71 Intermediate zones consist of the following administrative regions and RCMs: the Saguenay-Lac-Saint-Jean administrative region, the Mauricie administrative region, the Antoine-Labelle RCM, the Kamouraska RCM, the La Vallée-de-la-Gatineau RCM, the Les Basques RCM, the Pontiac RCM, the Rimouski-Neigette RCM, the Rivière-du-Loup RCM and the Témiscouata RCM.

72 Where the qualified corporation is associated with one or more other corporations, in the taxation year, the rate of the tax credit and its refundable nature are determined taking into account the paid-up capital of the qualified corporation and that of the corporations with which it is associated in the taxation year, according to the usual rules.

In addition, a qualified corporation can benefit from a higher rate and the refundable nature of the tax credit for investments, for a taxation year, only in regard to the eligible expenses it incurred that do not exceed a cumulative limit of \$75 million.

A qualified property, for the purposes of the tax credit for investments, is a property included in Class 29 of Schedule B of the *Regulation respecting the Taxation Act*,⁷³ in Class 43 of such schedule, in Class 50 or Class 52 of such schedule that is used mainly for making or processing articles intended for sale or lease or a property acquired after March 20, 2012 for use mainly in the course of ore smelting, refining or hydrometallurgy activities, other than ore from a gold or silver mine, extracted from a mineral resource located in Canada. It must, in particular, have been acquired before January 1, 2018 and, prior to its acquisition, it must not have been used for any purpose nor acquired to be used or rented for any purpose whatsoever.

It was announced in *Information Bulletin 2013-10* that an additional increase of up to ten percentage points would be added to the rate of the tax credit for investments applicable to a qualified corporation, for a taxation year, regarding its expenses eligible for the additional increase, i.e. the eligible expenses incurred by the corporation while its activities are mainly manufacturing or processing. It was stipulated at the time that a qualified corporation could benefit fully from this additional increase provided its paid-up capital⁷⁴ did not exceed \$15 million, but that such additional increase would be reduced linearly where the corporation's paid-up capital was between \$15 million and \$20 million. Accordingly, a qualified corporation with \$20 million of paid-up capital would not benefit from this additional increase.⁷⁵

In the context of the reduction in tax assistance applied to certain measures intended for businesses, various changes will be made to the tax credit for investments.

❑ Elimination of the increase in the rate of the tax credit for investments for certain administrative regions and RCMs and reduction of the base rate and the increases of the rate of the tax credit for investments

The tax legislation will be amended to eliminate the rise of five percentage points of the increase of the rate of the tax credit for investments granted to a qualified corporation that does not receive the tax credit for job creation regarding qualified property acquired for use mainly in the eastern part of the Bas-Saint-Laurent administrative region or in an intermediate zone. It will also be amended so that the base rate and the increases in the rate of the tax credit for investments are reduced by 20%.

73 CQLR, chapter I-3, r. 1.

74 Where the qualified corporation is associated with one or more corporations, in a taxation year, the rate of the additional increase it may claim for the taxation year is determined taking into account its paid-up capital and that of the corporations with which it is associated in the taxation year, according to the usual rules.

75 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin 2013-10*, October 7, 2013, p. 16-20.

Because of the elimination of the rise in the increase and such reduction of the base rate and the rate increases, the base rate of the tax credit for investments will be reduced to 4%. Where a qualified property is acquired for use mainly in a remote zone, the increased rate may reach 32%.⁷⁶ Where a qualified property is acquired for use mainly in the eastern part of the Bas-Saint-Laurent administrative region, the increased rate may reach 24%.⁷⁷ Where a qualified property is acquired for use mainly in an intermediate zone, the increased rate may reach 16%.⁷⁸ Otherwise, the increased rate may reach 8%.⁷⁹

The other rules that apply for the determination of the rate of the tax credit for investments applicable to a qualified corporation regarding the eligible expenses it incurred to acquire a qualified property will apply with the necessary adaptations.

As an example, the rate of the tax credit for investments that will apply to a qualified corporation with paid-up capital of \$375 million, for a taxation year, regarding its eligible expenses, for the taxation year, that relate to a qualified property acquired for use mainly in a remote zone will be 18%.⁸⁰

❑ Elimination of the additional increase in the rate of the tax credit for investments for manufacturing SMEs

The additional increase of ten percentage points in the rate of the tax credit for investments that applies regarding expenses eligible for the additional increase of a qualified corporation, for a taxation year, will be eliminated.

❑ Application date

These changes to the tax credit for investments will apply regarding eligible expenses incurred after the day of the budget speech.

However, these changes will not apply regarding eligible expenses incurred after the day of the budget speech, but before July 1, 2015, to acquire a qualified property no later than the day of the budget speech or to acquire a qualified property after such day, where:

- the qualified property is acquired in accordance with a written obligation entered into no later than the day of the budget speech;
- the qualified property is a property whose construction by the qualified corporation, or by the qualified partnership, or on its behalf, was underway the day of the budget speech.

76 I.e. the total of the base rate of 4% and the increase of 28%.

77 I.e. the total of the base rate of 4% and the increase of 20%.

78 I.e. the total of the base rate of 4% and the increase of 12%.

79 I.e. the total of the base rate of 4% and the increase of 4%.

80 This 18% rate is calculated as follows: $32\% - [28\% \times (\$375 \text{ million} - \$250 \text{ million}) / \$250 \text{ million}]$. It is determined taking into account the fact that the qualified corporation has not reached its \$75-million cumulative limit on eligible expenses.

3.2.4 Refundable tax credit relating to buildings used in the course of manufacturing or processing activities by a Québec manufacturing SME

The refundable tax credit relating to buildings used in the course of manufacturing or processing activities by a Québec manufacturing small and medium-sized enterprise (SME) (“tax credit for buildings”) was introduced on October 7, 2013.⁸¹

Briefly, a qualified corporation, for a taxation year, that acquires a building or makes an addition to a building may receive, under certain conditions, for the taxation year, the tax credit for buildings regarding its eligible expenditures relating to such building or addition. The rate of the tax credit, which can reach 50%, is determined on the basis of where the building is located and the paid-up capital of the qualified corporation for the taxation year.

Similarly, a qualified corporation, for a taxation year, that is a member of a qualified partnership at the end of the partnership’s fiscal period that ends in the taxation year, may receive, under certain conditions, this tax credit regarding its share of the eligible expenditures relating to a building or an addition to a building incurred by the qualified partnership.

A qualified building means a building located in Québec or an addition to a building located in Québec that is included in Class 1, Class 3 or Class 6 of Schedule B of the *Regulation respecting the Taxation Act*⁸² or that is included in Class 10 of Schedule B of the *Regulation respecting the Taxation Act* under subparagraph a of its second paragraph. It must, among others, be used mainly for manufacturing or processing activities.

The expenditures relating to such building or addition to a building must be incurred by a qualified corporation or qualified partnership whose activities are chiefly manufacturing or processing activities. They are subject to a cumulative cap of \$150 000 and can give rise to the tax assistance only if the corporation, or the partnership, as the case may be, acquired qualified property for the purposes of the tax credit for investments relating to manufacturing and processing equipment for a minimum amount of \$25 000.

According to the existing rules, these expenditures must be incurred after October 7, 2013 but before January 1, 2018 to acquire a building or addition to a building after October 7, 2013 but before January 1, 2018.

The tax credit for buildings will be eliminated as of the day following the day of the budget speech.

Accordingly, expenditures relating to a building incurred after the day of the budget speech will not give rise to the tax credit for buildings.

81 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin 2013-10*, October 7, 2013, p. 21-28.

82 CQLR, chapter I-3, r. 1.

However, a qualified corporation, or a qualified corporation that is a member of a qualified partnership, may continue to receive the tax credit for buildings regarding its expenditures relating to a qualified building, or its share of the expenditures relating to a qualified building incurred after the day of the budget speech, but before July 1, 2015, if such expenditures are incurred to acquire a building, or an addition to a building, no later than the day of the budget speech or for such an acquisition after that day where:

- such property is acquired in accordance with a written obligation entered into no later than the day of the budget speech;
- construction of such property by the qualified corporation, or by the qualified partnership, or on its behalf, was underway the day of the budget speech.

3.2.5 Refundable tax credit for the integration of information technologies in manufacturing SMEs

Information Bulletin 2013-10 introduced a new temporary refundable tax credit to support Québec manufacturing SMEs that want to invest in technology and integrate information technologies (IT) in their business processes.⁸³

Briefly, a qualified corporation may claim the refundable tax credit for the integration of information technologies in manufacturing SMEs regarding its expenditures relating to the supply of a qualified management software package.

This tax credit is equal to 25% of the expenses relating to a qualified IT integration contract for which Investissement Québec has issued a certificate. However, the total amount of this tax credit a qualified corporation may receive regarding one or more qualified IT integration contracts, as the case may be, is limited to \$62 500.

In the context of the revision of preferential measures for businesses, Investissement Québec will stop issuing the certificates necessary to receive the refundable tax credit for the integration of information technologies in manufacturing SMEs.

More specifically, Investissement Québec will not accept applications for an IT integration contract certificate submitted by a corporation as of the day of this budget speech and for the entire period of the revision of this fiscal measure.

83 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin 2013-10*, October 7, 2013, p. 28-33.

3.3 Changes to certain specific taxes

3.3.1 Increase in the specific tax on tobacco products

Given the state of public finances and the government's determination to achieve and maintain a balanced budget, an increase in the specific tax on tobacco products will apply as of midnight the evening of the budget speech.

The rates of this tax will accordingly be changed as follows as of June 5, 2014:

- the rate of the specific tax of 12.9 cents per cigarette will be raised to 14.9 cents per cigarette;
- the rate of the specific tax of 12.9 cents per gram of loose tobacco or leaf tobacco will be raised to 14.9 cents per gram;
- the rate of the specific tax of 19.85 cents per gram of any tobacco other than cigarettes, loose tobacco, leaf tobacco and cigars will be raised to 22.92 cents per gram; the minimum rate applicable to a tobacco stick will be raised from 12.9 to 14.9 cents per stick.

The rate of the ad valorem tax of 80% of the taxable price of cigars will remain unchanged.

☐ Taking of inventory

Persons not under an agreement with Revenu Québec who sell tobacco products in respect of which the specific tax has been collected in advance or should have been will have to take an inventory of all these products they have in stock at midnight June 4, 2014 and remit, before July 5, 2014, an amount equal to the difference between the tax applicable at the new rates and the tax applicable at the rates in effect prior to midnight, June 4, 2014. This also applies for collection officers under agreement with Revenu Québec who sell tobacco products in respect of which the specific tax on tobacco has been paid in advance or has not yet been paid.

Persons required to take inventory must use for this purpose the form provided by Revenu Québec and return it before July 5, 2014. For greater clarity, the products acquired by a person before midnight, June 4, 2014 but not yet delivered to him will be included in his stock.

3.3.2 Standardization of the rates of the specific tax on alcoholic beverages

Beer and other alcoholic beverages sold in Québec are subject to a specific tax whose rates depend on the type of product and where they are intended to be consumed.

Accordingly, in the case of products sold for consumption in an establishment, the applicable rates are generally \$0.82 per litre for beer and \$2.47 per litre for all other alcoholic beverages, while in the case of products sold for consumption other than in an establishment, the rates that apply are generally \$0.50 per litre for beer and \$1.12 per litre for all other alcoholic beverages.

While the application of different rates to alcoholic beverages depending on where they are consumed stems from the historical evolution of the taxation of such beverages which has always been higher in establishments, such a situation can be criticized in terms of tax neutrality. Accordingly, as of August 1, 2014, the applicable rates, depending on whether beer or another alcoholic beverage is involved, will be the same regardless of where such beverages are consumed.

This standardization will be achieved by reducing the rates applicable to products sold for consumption in an establishment and raising those applicable to products sold for consumption other than in an establishment.

Consequently, in general, the new rates of the specific tax will be \$0.63 per litre for beer and \$1.40 per litre for other alcoholic beverages, which will generate additional tax revenue helping to achieve the government's objective of returning to a balanced budget.

Regarding beer sold by microbrewers that is covered by the reductions in the rate of the specific tax of 67% and 33% applicable to the first 150 000 hectolitres sold annually, the rate will be 20.79 cents per litre on the first 75 000 hectolitres of beer sold and 42.21 cents per litre on the next 75 000 hectolitres.

Regarding other alcoholic beverages sold by small-scale producers to which rate reductions of 100% and 85% apply on the first 15 000 hectolitres sold in a year, the first 1 500 hectolitres sold will continue not to be subject to the specific tax while the next 13 500 hectolitres will be subject to a rate of 21 cents per litre.

These new rates will apply to alcoholic beverages sold as of 6 a.m., August 1, 2014.

□ Taking of inventory

Persons who sell alcoholic beverages in respect of which the specific tax has been collected in advance or should have been will have to take an inventory of all these beverages they have in stock at 6 a.m. on August 1, 2014 in order to obtain a refund of the amount equal to the difference between the specific tax applicable at the rates in effect before 6 a.m., August 1, 2014 and that applicable at the new rates.

Persons who sell alcoholic beverages for consumption other than in an establishment in respect of which the specific tax has been collected in advance or should have been will also have to take an inventory of all these beverages they have in stock at 6 a.m. on August 1, 2014 and pay, before August 30, 2014, an amount corresponding to the difference between the specific tax applicable at the new rates and that applicable at the rates in effect before 6 a.m., August 1, 2014.

Persons required to take inventory must use for this purpose the form provided by Revenu Québec and return it before August 30, 2014, where they must make a payment, or before November 1, 2014, where they want to obtain a refund. For greater clarity, the alcoholic beverages acquired by a person before 6 a.m. on August 1, 2014 but not yet delivered to him will be included in his stock. However, in the case of a person who sells alcoholic beverages intended for consumption in an establishment, beverage containers opened before 6 a.m. on August 1, 2014 will not be included in his stock.

4. OTHER MEASURES

4.1 Amendment to ensure the fairness of the mechanism for splitting retirement income between spouses

Since 2007, the tax system has included an income splitting mechanism that enables couples receiving certain retirement income to reduce their overall tax burden. This mechanism was introduced, in particular, to bolster incentives to save and invest, in order to ensure retirement security.

Under the mechanism, taxpayers may deduct, in the calculation of their income, an amount not exceeding 50% of the aggregate of their retirement income eligible for income splitting, provided the amount is included in the calculation of their spouse's income.

The amount of income attributed is deemed to have been received, by the spouse of the person whose income was split, as retirement income for the purposes of the tax credit for a person living alone, for age and for retirement income. Conversely, the person whose income was split is deemed not to have received such an amount for the purposes of the tax credit.

The mechanism for splitting retirement income between spouses functions consensually, one year at a time, between persons resident in Canada who are both eligible spouses.⁸⁴ To take advantage of the mechanism for a particular taxation year, the person whose income is to be split, and the person's spouse, must elect to use the mechanism when they file their tax returns for the year.

Given that splitting the retirement income received during a year between spouses is dependent on the validity of a tax election, the election that taxpayers' plan to make for a year cannot be taken into account to reduce the amount of income tax deductible at source from the various payments of retirement income receivable during the year, or to determine, where applicable, the amount of the instalment payments to be made by the spouses for the year.

The retirement income eligible for income splitting under the Québec tax system has always been identical to that which may be split under the federal tax system. Currently, the retirement income eligible for income splitting varies depending on whether the person whose income is split turned 65 before the end of the year for which application of the income splitting mechanism is requested.

84 In general, the eligible spouse of an individual for a given year is the person who is the individual's spouse at the end of the year and who, at that time, is not living separate and apart from the individual or, where the individual does not have a spouse at the end of the year, the last person who was the individual's spouse during the year, where that person died during the year and, at the time of death, was the individual's spouse and was not living separate and apart from the individual.

The table below presents the main payments which, depending on the beneficiary's age, may give entitlement to the mechanism for splitting retirement income between spouses.

TABLE 12

Eligibility for the mechanism for splitting retirement income, according to the nature of the payments received and the age of the person whose income is split

Nature of the main payments of retirement income ⁽¹⁾	Eligibility according to the person's age	
	Under 65	65 or older
1. Life annuities paid under a registered pension plan (RPP)	X	X
2. Periodic payments under a defined-contribution provision of an RPP, other than life annuity payments		X
3. Annuities paid under a registered retirement savings plan (RRSP)		X
4. Payments under a registered retirement income fund (RRIF)		X
5. Annuities paid under a deferred profit-sharing plan (DPSP)		X
6. Payments of taxable benefits under a pooled registered pension plan (PRPP) ⁽²⁾		X
7. Life annuities paid under a retirement compensation arrangement, subject to a recognized maximum amount		X
8. Payments covered by points 2 to 6 above and received further to the spouse's death	X	

(1) The mechanism for splitting retirement income between spouses does not apply to Québec Pension Plan benefits, Canada Pension Plan benefits or Old Age Security benefits, regardless of the age of the recipient of the benefits.

(2) Voluntary retirement savings plans (VRSPs), if registered, are PRPPs.

Briefly, the existing rules give preferential tax treatment to individuals who receive a life annuity under a registered pension plan, because they can use the mechanism for splitting retirement income before normal retirement age.⁸⁵

When the tax measure was introduced, that preferential treatment was justifiable in that members of a registered pension plan generally have very little control over when their retirement pension will be paid to them, contrary to individuals whose retirement savings accumulate in a registered retirement savings plan.

However, given that there is a very large number of workers in Québec who do not have access to a registered pension plan through their employer, eligibility of life annuity payments from a registered pension plan for the income splitting mechanism, independent of age, has become a source of unfairness for Québec retirees.

85 Normal retirement age is generally set in public and private pension plans at age 65. At that age, an individual can obtain a retirement pension from the Québec Pension Plan without actuarial reduction, the Old Age Security pension and, where applicable, the Guaranteed Income Supplement.

To improve the fairness of the mechanism for splitting retirement income between spouses, the tax legislation will be amended to provide that, for the income splitting mechanism to be applicable in a particular taxation year, the person whose income is split must have reached 65 years of age before the end of the year, or, if the person died or ceased to be resident in Canada in the year, on the date of his or her death or on the date on which he or she ceased to be resident in Canada.

This amendment will apply as of taxation year 2014.

4.2 Salary paid for the purposes of determining various employer contributions

In general, where an employer, during a pay period, grants a taxable benefit in kind to an employee who reports for work to its establishment in Québec, it must add the value of such benefit to his remuneration to calculate his pay subject to employee and employer contributions to the Québec Pension Plan, the employer contribution to the Health Services Fund and, if applicable, the compensatory tax where the employer is not a corporation.

In addition, the value of such benefit is included in remuneration for the purposes of calculating the contribution an employer must pay to fund the Commission des normes du travail, in salaries paid for the purposes of calculating the compensatory tax payable by certain corporations, in wages to be reported by an employer for the purposes of calculating its contribution to the Commission de la santé et de la sécurité du travail, in the total payroll used to determine an employer's contribution rate to the Health Services Fund and in the payroll used to determine an employer's participation in manpower skills development and, if necessary, its contribution to the Workforce Skills Development and Recognition Fund.⁸⁶

Where an employee is not required to report to work at an establishment of his employer, the value of the taxable benefits in kind provided to him must also be included for the purposes of determining the various contributions based on salaries, if such benefits are provided from an establishment of an employer in Québec.

In principle, an employer should take into account all of the taxable benefits its employees receive or benefit from because of, or in the course of, their employment.

However, in some cases, an employee may be required to include in calculating his income the value of a benefit from his employment without the employer being required to include such value for the purposes of determining the various contributions based on salaries.

This situation may arise, for example, where an employee is granted an option to purchase securities under agreement whose terms stipulate that an eligible person – a corporation or a mutual fund trust – agrees to sell or issue one of its securities or a security of an eligible person with whom it is not at arm's length, to an employee of an eligible person with whom it is not at arm's length.

86 For greater clarity, taxable benefits in kind are generally not subject to employee and employer contributions to the Québec Parental Insurance Plan.

Indeed, the tax legislation stipulates in this case that an employee who acquires a security under such an agreement is deemed to receive because of his office or employment a benefit equal to the amount by which the value of the security, at the time he acquires it, exceeds the total of the amount paid or payable by him to the eligible person for the security and the amount paid by him to acquire the right to acquire the security.⁸⁷

However, because the agreement under which the employee acquires the security is entered into with a person with whom his employer is not at arm's length, rather than with his employer, the employer is not required to include the value of the benefit conferred, unless the employer can truly be considered to be the one conferring the benefit on the employee.

In this regard, in a recent decision, the Appeal Court of Québec ruled that “the real employment relationship alone is not conclusive in itself” [TRANSLATION] to consider that the benefit is granted by the employer, where the person not at arm's length with the employer is the one who decides whether the benefit is granted and who covers its cost.⁸⁸

For its part, the person granting the benefit is generally not required to include its value in the determination of the various contributions based on salaries, given the lack of an employment relationship between such person and the employee. The Act respecting the Régie de l'assurance maladie du Québec⁸⁹ and the Act respecting the Québec Pension Plan⁹⁰ allow for exceptions to this rule by, in particular, deeming that the person who granted the benefit is an employer of the employee. However, the presumptions established by these statutes are unenforceable if the person who granted the benefit does not have an establishment in Québec.

87 The value of the benefit must be included in the calculation of the employee's income for the year during which the shares were alienated if the agreement is entered into with a Canadian-controlled private corporation that agrees to sell or issue a share of its capital stock or of the capital stock of a Canadian-controlled private corporation with which it is not at arm's length to an employee of a Canadian-controlled private corporation with which it is not at arm's length. Otherwise, the value of the benefit must be included in the calculation of the employee's income for the year during which the securities were acquired.

88 *Pratt & Whitney Canada Cie. c. Agence du revenu du Québec*, 2013 QCCA 706. On September 19, 2013, the Supreme Court of Canada rejected the application to appeal this ruling.

89 CQLR, chapter R-5, sec. 34.0.1.

90 CQLR, chapter R-9, sec. 50.1.

Accordingly, in the interests of fairness and neutrality and to avoid any erosion in the base of salary-based contributions, a change will be made to the base wages, as defined in the *Taxation Act* for the purposes of the compensatory tax required of financial institutions,⁹¹ which is used as the point of departure in determining the contributions required under the *Act respecting the Québec Pension Plan*, the *Act respecting the Régie de l'assurance maladie du Québec*, the *Act respecting Labour Standards*,⁹² the *Act respecting industrial accidents and occupational diseases*,⁹³ and the *Act to promote workforce skills development and recognition*.⁹⁴

More specifically, regarding the salary that a given employer pays to one of its employees, the definition of "base wages" will be changed to include any amount paid, allocated, granted or awarded to the employee because of, or in the course of his office or employment by a person not at arm's length with the given employer, unless such amount were excluded from the employee's base wages if it were paid, allocated, granted or awarded by the employer.

The application of this amendment will be declaratory. However, it will not apply regarding cases pending the day of the budget speech and notices of objection served on the Minister no later than 4 p.m. the day of the budget speech, where the reason for the objection is that an amount has been paid, allocated, granted or awarded to an employee by a person not at arm's length with the employee's employer rather than by the employer.

4.3 Measures applicable to labour funds

For many years now, the Fonds de solidarité FTQ and Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi, have played a major role in Québec's venture capital industry. Each in its own way, these funds contribute to Québec's economic growth by creating and protecting jobs through investments in Québec companies.

The government supports the mission of labour funds by allowing them to collect capital enjoying a tax benefit consisting of a non-refundable tax credit to individuals who become their shareholders.

This tax credit provides workers with an incentive to save for retirement while participating in the development of Québec's economy.

To reflect the fact that the financing of labour funds is facilitated by granting a tax benefit, many measures have been taken over the years to govern the organization of these funds, to protect investors in these funds and to ensure that these funds adhere to their mission.

91 CQLR, chapter I-3, sec. 1159.1.

92 CQLR, chapter N-1.1.

93 CQLR, chapter A-3.001.

94 CQLR, chapter D-8.3.

❑ **Temporary cap on government assistance for the capitalization of labour funds**

Because of the government's financial situation and in the interests of restoring order to public finances and ensure adequate funding of public services, the government support granted to labour funds, currently amounting to some \$150 million per year, will be temporarily limited.

■ **Cap applicable to the Fonds de solidarité FTQ**

Currently, subject to satisfying its investment requirement, the Fonds de solidarité FTQ is under no restriction as to the issue, during a given fiscal year, of shares or fractions of shares for which taxpayers can obtain a tax credit equal to 15% of the amount paid to acquire them.

Considering the fund's recent issues, the amount of paid-up capital in respect of shares or fractions of shares giving rise to a tax benefit that may, with government support, be raised during its fiscal year beginning June 1, 2014 and ending May 31, 2015 will be limited to \$650 million.

In the event that, at the end of its 2014-2015 fiscal year, the amount of paid-up in respect of all of the shares or fractions of shares giving rise to a tax benefit issued by the Fonds de solidarité FTQ during such fiscal year were to exceed \$650 million, the fund will have to pay a special tax equal to 15% of such excess amount no later than the 90th day following the end of such fiscal year.

■ **Cap applicable to Fondation**

In carry out its mission, Fondation invests in companies involved in a participative management process as well as social economy businesses – consisting of cooperatives and non-profit organizations. It also supports businesses that are sensitive to the environment and more sustainable development.

To enable Fondation to achieve an optimal level of capitalization so that it can pursue its mission, the rate of the tax credit for the acquisition of a class "A" or class "B" share or fraction of such share, hereunder called "eligible share", was temporarily increased from 15% to 25% for any eligible share acquired after May 31, 2009 and before June 1, 2015. For each fiscal year included in this period, limits were imposed on the capital that Fondation is authorized to collect.

For the fiscal year beginning June 1, 2014 and ending May 31, 2015, the limit previously set will be reduced by \$25 million. More specifically, the amount of paid-up capital in respect of eligible shares that may, with government support, be raised during such fiscal year will be equal to the total of \$200 million and the amount by which the maximum amount Fondation was authorized to collect for its fiscal year ending May 31, 2014⁹⁵ exceeds the total of the amounts each of which is an amount paid during such fiscal year for the purchase of an eligible share as first acquirer.

95 For its fiscal year ending May 31, 2014, Fondation was authorized to collect an amount equal to the total of \$200 million and the amount by which \$175 million exceeds all of the amounts each of which is an amount paid to purchase an eligible share as first acquirer during its fiscal year ending May 31, 2013.

In the event that, at the end of its 2014-2015 fiscal year, the amount of capital collected for such year exceeds the maximum amount authorized for the year, Fondation will have to pay, no later than the 90th day following the end of such fiscal year, a tax equal to 25% of such excess amount.

❑ **Recognition of certain investments made by labour funds**

Since the financing of labour funds is made easier by granting a tax benefit, an investment requirement was included in their statutes of incorporation to ensure, in particular, that the funds collected are used as a financing tool contributing to the development of Québec entities.

Accordingly, for each fiscal year, the eligible investments of these funds – that include no security bond or hypothec – must represent, on average, at least 60% of their average net assets for the preceding fiscal year.

If this investment requirement, hereunder called the “60% requirement”, is not satisfied, for a given fiscal year, the funds are systematically limited in their capacity to issue shares during the following fiscal year.

Over the years, the 60% requirement of each labour fund has been changed to adapt it to the capital requirements of Québec companies and to enable the funds to play a larger role in Québec's economy.

Currently, for the purposes of the 60% requirement, eligible investments of labour funds include, among others, investments in eligible Québec enterprises, investments in certain income-producing immovable properties that are new or undergoing major renovations,⁹⁶ investments in major projects with a structuring effect on Québec's economy, strategic investments made in accordance with an investment policy approved by the Minister of Finance as well as investments made in certain local venture capital funds created and managed in Québec.

■ **Recognition of investments made by the Fonds de solidarité FTQ in a fund to finance sector-based venture capital funds**

Venture capital plays an essential role for innovative companies, providing them with the resources they need to expand and create jobs.

Over the last decade, the government has taken many steps to energize the venture capital industry in Québec. To ensure a supply of venture capital that is sufficient to support the development of Québec technology companies, the government participated, in particular, in the creation, in 2009, of Teralys Capital, a fund's whose mission is to finance private venture capital funds focusing on information technologies, life sciences and clean technologies.

To consolidate the gains of its action plan for Québec's venture capital industry, the government will participate, jointly with the federal government and other private sector players – including the Fonds de solidarité FTQ –, in the creation of a new venture capital fund of funds⁹⁷ whose mission will be, among other things, to recapitalize the most successful private funds.

96 This type of investment cannot exceed 5% of net assets at the end of the preceding fiscal year.

97 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Budget Plan*, June 4, 2014, Section B.

To recognize the contribution of the Fonds de solidarité FTQ in setting up this new venture capital fund of funds, its statute of incorporation⁹⁸ will be amended to stipulate that the investments of the Fonds de solidarité FTQ in the fund of funds will be considered as eligible investments for the purposes of the calculation of the 60% requirement applicable to it.

Investments agreed and for which sums have been committed, but not yet disbursed at the end of a given fiscal year, will also be considered eligible investments. For greater clarity, these investments will not be included for the purposes of calculating the authorized limit of 12% that generally applies to non-disbursed investments.

■ **Recognition of investments made by Fondation to develop the residual forest biomass sector**

Using residual forest biomass to produce energy is one solution for reducing fossil fuel consumption.

To accelerate development of the residual forest biomass sector, a new investment fund, consisting of a limited partnership, will be set up.⁹⁹ This fund will have \$20.2 million in capital, of which Fondation will provide \$10 million and the Québec government, \$10 million.

To recognize the contribution of Fondation in the development of the residual forest biomass sector, its statute of incorporation¹⁰⁰ will be amended to stipulate that investments made in this new investment fund will be considered as eligible investments for the purposes of the 60% requirement applicable to it.

Investments that have been agreed and for which funds have been committed but not yet disbursed at the end of a given fiscal year will also be considered eligible investments, subject to the authorized limit of 12% of net assets at the end of the preceding fiscal year.

4.4 Measures applicable to Capital régional et coopératif Desjardins

Capital régional et coopératif Desjardins is an investment corporation whose mission is to marshal venture capital for Québec's resource regions and the cooperative movement.

Capital régional et coopératif Desjardins, through its sustained presence in the resource regions, helps stimulate regional economic development. As a result, over the years, it has become a valuable tool for small and medium-size enterprises in the regions that need capital to develop and reach maturity.

98 *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)* (CQLR, chapter F-3.2.1).

99 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Budget Plan*, June 4, 2014, Section B.

100 *Act to establish Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* (CQLR, chapter F-3.1.2).

Since Capital régional et coopératif Desjardins was formed, the government has supported its mission by allowing individuals who acquire its shares to claim a tax benefit. This benefit, which consists of a non-refundable tax credit, is designed to encourage individuals to participate in Québec's economic development.

Since Capital régional et coopératif Desjardins's financing is facilitated by granting a tax benefit, an investment requirement was included in its statute of incorporation¹⁰¹ to ensure, in particular, that the funds collected are used as a financing tool contributing to the development of Québec entities.

This requirement stipulates that, for each fiscal year, the eligible investments of Capital régional et coopératif Desjardins – that include no security or hypothec – must represent, on average, at least 60% of its average net assets for the preceding fiscal year, and that a portion, hereunder called “regional component”, representing at least 35% of such percentage must be made in eligible cooperatives or in entities located in Québec's resource regions.¹⁰²

For the purposes of the regional component of the investment requirement, the regions of Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie-Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay-Lac-Saint-Jean are considered resource regions.

Over the years, the statute of incorporation of Capital régional et coopératif Desjardins has been amended to better adapt it to the capital requirements of Québec companies and to enable the corporation to play a larger role in the economy.

Given that Capital régional et coopératif Desjardins sees itself as a major partner in the government strategy favouring territories facing economic difficulties, various amendments will be made to its statute of incorporation to recognize its role with small and medium-size enterprises established in such territories.

❑ Greater recognition of investments made in territories facing economic difficulties

Currently, 7 of Québec's 17 administrative regions are considered resource regions for the purposes of the regional component of Capital régional et coopératif Desjardins' investment requirement. Because of their distance from large urban centres, these regions form a geographic and economic entity with common features and problems.

The fact that manufacturing activities are less developed there than elsewhere in Québec, that development of their resources depends on the global situation and that businesses established there do not always have adequate financing to prosper slows their economic development.

These problems, which compound other difficulties, demographic ones in particular, have an impact on the vitality of almost two thirds of the regional county municipalities and urban agglomerations that make up these regions.

101 *Act constituting Capital régional et coopératif Desjardins* (CQLR, chapter C-6.1).

102 If any component of the investment requirement is not satisfied for a given fiscal year, Capital régional et coopératif Desjardins becomes subject to a special tax.

While not part of any of the seven regions recognized as resource regions, many other regional county municipalities are also facing substantial economic difficulties, whether as a result of insufficient industrial diversification or lack of new businesses.

In these territories, obtaining the financing needed to carry out investment projects is a major challenge, especially for small businesses.

Accordingly, to reflect the importance of the role that Capital régional et coopératif Desjardins can play in financing businesses established in territories where economic development indices have been the lowest over the past few years, whether or not such territories are in a resource region, various amendments will be made to its statute of incorporation.

■ **Regional county municipalities outside resource regions facing economic difficulties**

The *Act constituting Capital régional et coopératif Desjardins* will be amended to stipulate that an investment that is otherwise eligible made, after December 31, 2013 and before January 1, 2018, in an entity located in a regional county municipality facing economic difficulties whose name is included in the table below will be considered, for the purposes of Capital régional et coopératif Desjardins' investment requirement, as having been made in an entity located in a resource region.

TABLE 13

List of regional county municipalities outside resource regions facing economic difficulties

Acton	L'Islet	Le Haut-Saint-Laurent	Matawinie
Antoine-Labelle	La Vallée-de-la-Gatineau	Les Appalaches	Montmagny
Argenteuil	Le Granit	Les Etchemins	Papineau
Coaticook	Le Haut-Saint-François	Les Sources	Pontiac

■ **Increase in the amount of investments**

■ **Investments in eligible entities**

The *Act constituting Capital régional et coopératif Desjardins* will be amended to stipulate that an investment that does not include any security or hypothec made by Capital régional et coopératif Desjardins, after December 31, 2013 and before January 1, 2018, in an eligible entity¹⁰³ located in a territory identified as facing economic difficulties will, up to an amount of \$500 000, be deemed grossed up by 100% for the purposes of the investment requirement.

103 Briefly, for the purposes of the *Act constituting Capital régional et coopératif Desjardins*, an eligible entity means an eligible cooperative, a corporation or partnership that carries on an active business, the majority of whose employees reside in Québec and whose assets are less than \$100 million or net equity is less than \$50 million, other than an eligible cooperative or a corporation or partnership all of whose activities consist mainly in making investments.

In this regard, investments agreed after December 31, 2013 and before January 1, 2018 and for which amounts have been committed, but not yet disbursed at the end of a given fiscal year, will be deemed to have been made by Capital régional et coopératif Desjardins. For greater clarity, these investments will be included in the calculation of the 12% authorized limit applicable to non-disbursed investments.

■ **Investments made through a limited partnership**

While a limited partnership all of whose activities consist mainly in making investments is not an eligible entity¹⁰⁴ for the purposes of Capital régional et coopératif Desjardins' investment requirement, this type of investment vehicle is nonetheless present in many categories of eligible investment.

For limited partnerships recognized because of the partnerships they help create, all of the contribution made to the corporation is generally considered an eligible investment for the purposes of the investment requirement.¹⁰⁵

For the others, only the portion of the amounts paid to the limited partnership by Capital régional et coopératif Desjardins that results in an investment in an eligible entity may be considered an eligible investment for the purposes of the investment requirement. In such a case, an investment is considered eligible if the investment – that includes no security or hypothec – is made in an eligible entity through a limited partnership in which Capital régional et coopératif Desjardins holds an equity stake, directly or through another limited partnership, up to the proportion of the direct or indirect equity stake of Capital régional et coopératif Desjardins in the limited partnership that made such investment.

Accordingly, to better recognize the investments made through a limited partnership in eligible entities located in a territory identified as facing economic difficulties, changes will be made to the calculation of Capital régional et coopératif Desjardins' investment requirement.

On the one hand, the *Act constituting Capital régional et coopératif Desjardins* will be amended to stipulate that the amount of investments made by Capital régional et coopératif Desjardins in a limited partnership that are otherwise eligible will be increased by its share in any investment that includes no security or hypothec made, after December 31, 2013 and before January 1, 2018, in an eligible entity located in a territory identified as facing economic difficulties through the limited partnership, up to \$500 000 per investment.

On the other hand, it will be amended to stipulate that Capital régional et coopératif Desjardins' share in any investment that includes no security or hypothec made, after December 31, 2013 and before January 1, 2018, in an eligible entity located in a territory identified as facing economic difficulties through a limited partnership in which it holds an equity stake, directly or through another limited partnership will, up to an amount of \$500 000, be deemed grossed up by 100% for the purposes of the investment requirement.

104 See the preceding note.

105 The Fonds Relève Québec, S.E.C., the Société en commandite Essor et Coopération, Capital croissance PME II S.E.C. as well as certain local venture capital funds created and managed in Québec are all examples of limited partnerships recognized for the purposes of the investment requirement.

■ Territories identified as facing economic difficulties

For the purposes of the gross-up relating to an investment made in a territory identified as facing economic difficulties, the following territories will be considered as such: the territories of the Kativik Regional Government,¹⁰⁶ the Eeyou Istchee James Bay Regional Government,¹⁰⁷ the urban agglomeration of La Tuque,¹⁰⁸ the urban agglomeration of the Îles-de-la-Madeleine,¹⁰⁹ the Ville de Shawinigan as well as the regional county municipalities named in the following table.

TABLE 14

List of regional county municipalities facing economic difficulties

Abitibi-Ouest	La Côte-de-Gaspé	Le Granit	Maskinongé
Acton	La Haute-Côte-Nord	Le Haut-Saint-François	Matawinie
Antoine-Labelle	La Haute-Gaspésie	Le Haut-Saint-Laurent	Mékinac
Argenteuil	La Matanie	Le Rocher-Percé	Montmagny
Avignon	La Matapédia	Les Appalaches	Papineau
Bonaventure	La Mitis	Les Basques	Pontiac
Coaticook	La Vallée-de-la-Gatineau	Les Etchemins	Témiscamingue
Kamouraska	Le Domaine-du-Roy	Les Sources	Témiscouata
L'Islet	Le Golfe-du-Saint-Laurent	Maria-Chapdelaine	

□ Changes to government assistance for capitalization

According to the *Act constituting Capital régional et coopératif Desjardins*, this corporation can raise a maximum amount of \$150 million per capital-raising period,¹¹⁰ as long as it has not reached, for the first time, at the end of a capital-raising period, at least \$1.25 billion on account of paid-up capital regarding issued and outstanding shares and fractions of shares.

Once past the threshold, the maximum amount that Capital régional et coopératif Desjardins can collect for a capital-raising period corresponds to the reduction, up to \$150 million, of its paid-up capital attributable to redemptions or purchases by agreement made during the preceding capital-raising period.

106 *Act respecting Northern villages and the Kativik Regional Government* (CQLR, chapter V-6.1).

107 *Act establishing the Eeyou Istchee James Bay Regional Government* (CQLR, chapter G-1.04).

108 According to section 8 of the *Act respecting the exercise of certain municipal powers in certain urban agglomerations* (CQLR, chapter E-20.001), the urban agglomeration of La Tuque consists of the territories of the Ville de La Tuque, the Municipalité de La Bostonnais and the Municipalité de Lac-Édouard.

109 According to section 9 of the *Act respecting the exercise of certain municipal powers in certain urban agglomerations*, the urban agglomeration of Îles-de-la-Madeleine consists of the territories of the Municipalité des Îles-de-la-Madeleine and the Municipalité de Grosse-Île.

110 A capital-raising period begins March 1 of a year and ends the last day of February of the following year.

Given that, according to the complete annual financial statements of Capital régional et coopératif Desjardins for 2013, the threshold of \$1.25 billion has been exceeded, the amount it may raise during its capital-raising period beginning March 1, 2014 and ending February 28, 2015 will be limited to the lower of \$150 million or the amount corresponding to the reduction in paid-up capital attributable to all its shares and fractions and shares that are redeemed or purchased by agreement by the corporation during the preceding capital-raising period.

For its capital-raising period beginning March 1, 2015 and ending February 29, 2016, Capital régional et coopératif Desjardins will exceptionally be authorized to raise a maximum of \$150 million.

Moreover, in view the fact that Capital régional et coopératif Desjardins, given its mission, has presented good historical returns, the applicable rate for the purposes of the calculation of the tax credit for the acquisition of its shares will be reduced from 50% to 45% for shares acquired after February 28, 2014. Accordingly, the maximum amount an individual may deduct in calculating his tax otherwise payable for a given taxation year, for shares acquired during a capital-raising period beginning in such year, will decline from \$2 500 to \$2 250.

■ **Consequential change to the special tax relating to the recovery of the tax credit for the purchase of shares**

The tax legislation stipulates that where a share (including a fraction of a share) is redeemed or purchased by Capital régional et coopératif Desjardins less than seven years after it was issued, the person who purchased the share (the “taker”) or the person to whom such share was passed on to by succession must generally pay, for the taxation year during which the redemption or purchase is made, a tax equal to the amount obtained by applying, to the lesser of the specified portion of the amount paid by the taker to acquire the share and the price paid by the corporation for its redemption or its purchase by agreement, the percentage attributable to the number of days the share was not held.¹¹¹

Currently, to obtain the specified portion of the amount paid by a taker to acquire a share, a rate of 50% must be applied to the amount paid for the purchase of the share, unless the share was issued after March 23, 2006 and before November 10, 2007, in which case the applicable rate is 35%.

To reflect the fact that the rate applicable for the purposes of calculating the tax credit will decline from 50% to 45%, the tax legislation will be amended to stipulate that the applicable rate for obtaining the specified portion of the amount paid by a taker to acquire a share of Capital régional et coopératif Desjardins will correspond to:

- 50% where the share was issued either before March 24, 2006 or after November 9, 2007 and before March 1, 2014;

111 This percentage is obtained by dividing, by 2 556, the amount by which 2 556 exceeds the number of days included in the period beginning the day the share is issued and ending the day of its redemption or purchase by agreement.

- 35% where the share was issued after March 23, 2006 and before November 10, 2007;
- 45% where the share is issued after February 28, 2014.

■ **Consequential change to the special tax relating to excessive capitalization**

The tax legislation stipulates that, where, at the end of a given capital-raising period beginning after February 28, 2007, the amount of paid-up capital regarding all the shares and fractions of shares issued by Capital régional et coopératif Desjardins during such period exceeds the maximum amount it is authorized to collect for such period, the corporation must pay, no later than the May 31 following the end of such period, a special tax equal to 50% of the amount by which the paid-up capital regarding all of the shares and fractions of shares issued during the capital-raising period exceeds the maximum amount it is authorized to collect for such period.

For a capital-raising period beginning after February 28, 2014, the applicable rate for the purposes of calculating such special tax will decline from 50% to 45% to reflect the reduction in the tax assistance allowed for the acquisition of shares issued by Capital régional et coopératif Desjardins.

4.5 Deferral of changes to the refundable tax credit for resources announced in the March 20, 2012 Budget Speech

Briefly, an eligible corporation that incurs expenses relating to mining resources, oil and natural gas, other natural resources (cut stone) or renewable energy and energy conservation, for a taxation year, may claim in respect of such expenses, for such taxation year, the refundable tax credit for resources.

The rate of the tax credit an eligible corporation may claim in relation to the eligible expenses it incurs varies according to a number of parameters, including the type of resource to which the eligible expenses are connected, the place where such expenses are incurred, as well as the type of corporation that incurs such expenses.¹¹²

112 The rates of the refundable tax credit for resources will be reduced regarding eligible expenses incurred after the day of the budget speech. The rates of the tax credit that apply before and after this reduction are stated in subsection 3.1.7.

In the March 20, 2012 Budget Speech,¹¹³ reductions in the rates of the refundable tax credit for resources were announced, which were to apply regarding eligible expenses incurred after December 31, 2013. It was mentioned at the time that the rates of the refundable tax credit for resources would be reduced by ten percentage points where the eligible expenses were related to mining resources, oil and natural gas and were incurred by a corporation not operating any mineral resource, oil or gas well, and by five percentage points otherwise, except regarding the rates applicable to eligible expenses relating to renewable energy and energy conservation, which would not be reduced.

It was also announced that a conditional improvement to the tax credit for resources would be available for qualified corporations regarding eligible expenses relating to mining resources, oil and natural gas incurred after December 31, 2013. It was mentioned that this improvement to the tax credit would consist of an increase in the rate of the tax credit of ten percentage points for corporations not operating any mineral resource, oil and gas well, and five percentage points for other qualified corporations, and that it would be granted in exchange for an equity stake option to the state.

The application of this reduction of the rates of the refundable tax credit for resources and this improvement to the tax credit in exchange for an equity stake option to the state was deferred to January 1, 2015.¹¹⁴

Since a commission will be set up to study Québec's tax system and various tax assistance measures will be analyzed, it is appropriate to once again defer the application of the reduction of the rates of the tax credit and the conditional improvement to these rates announced in the March 20, 2012 Budget Speech.

Accordingly, the application of the reduction of the rates of the refundable tax credit for resources of ten percentage points and of five percentage points and the conditional improvement to these rates announced in the March 20, 2012 Budget Speech will be deferred. The decision whether or not to apply these reductions and this improvement, and the time as of which they will apply will be announced at a later date.

4.6 Transfer to Revenu Québec of responsibilities relating to the application of the *Mining Tax Act*

The mission of the Ministère de l'Énergie et des Ressources naturelles is to ensure, from the standpoint of sustainable development and integrated management, the conservation and development of natural resources and land in the domain of the state.

It is also mandated to enforce the *Mining Tax Act*.¹¹⁵ In the course of enforcing this statute, it requires that operators file mining tax returns. In particular, it must examine these returns, sent notices of assessment, determine the duties, interest and penalties payable and carry out audits relating to these returns.

113 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, p. 53-55.

114 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin 2013-14*, December 20, 2013, p. 5.

115 CQLR, chapter I-0.4.

Revenu Québec, for its part, is charged with administering and enforcing various tax laws including the *Taxation Act*.¹¹⁶

While the duty of enforcing the *Mining Tax Act* was given to the department responsible for natural resources given its extensive knowledge of the mining sector, the responsibilities stemming from the enforcement of this law are similar to those Revenu Québec carries out for the enforcement of the *Taxation Act*.

Moreover, certain information that operators send to the Ministère de l'Énergie et des Ressources naturelles, in the course of filing their mining tax return, is also required by Revenu Québec in enforcing the *Taxation Act*, which can place an administrative burden on taxpayers.

In response to these considerations, the responsibilities relating to enforcing the *Mining Tax Act*, currently held by the Minister of Energy and Natural Resources, will be assumed, as of April 1, 2015, by the Minister of Revenue.

Accordingly, the *Mining Tax Act* will be amended so that the Minister charged with enforcing this statute is, as of that date, the Minister of Revenue.

The details of the transfer of these responsibilities will be specified in a statute to be enacted to that end. Briefly, the rights and obligations arising from the enforcement of the *Mining Tax Act* will be transferred to the Minister of Revenue on April 1, 2015. All the files and other documents obtained by the Ministère de l'Énergie et des Ressources naturelles in enforcing the *Mining Tax Act* will come under the jurisdiction of Revenu Québec as of that date. Similarly, provisions relating to the exchange of information between Revenu Québec and the Ministère de l'Énergie et des Ressources naturelles will be stipulated. Lastly, these responsibilities will be transferred in compliance with the applicable collective agreements.

116 CQLR, chapter I-3.

5. MEASURES RELATING TO FEDERAL TAX LEGISLATION AND REGULATIONS

5.1 Harmonization with certain measures of the federal budget of February 11, 2014

On February 11, 2014, the Minister of Finance of Canada presented the federal government's budget for 2014. Along with the budget, the Minister of Finance of Canada tabled, in the House of Commons, supplementary information as well as notices of ways and means motions and draft amendments to various regulations¹¹⁷ to amend, among others, the income tax system and the goods and services tax and harmonized sales tax (GST/HST) system.

Québec's position regarding the changes proposed in the federal budget was made public in the February 20, 2014 Budget Speech. However, because of the general election held in Québec on April 7, 2014, Québec's position in this regard could not be approved by the National Assembly before it was dissolved.

Accordingly, it is appropriate to confirm that Québec's tax legislation and regulations will be amended to incorporate some of the measures announced in the 2014 federal budget. However, the changes to Québec's tax system will be adopted only after the assent of any federal statute or the adoption of any federal regulations implementing the retained measures, taking into account technical amendments that may be made prior to such assent or adoption. Lastly, these changes will apply on the same dates as those for the purposes of the federal measures with which they are harmonized.

Measures relating to income tax

■ Measures retained

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

1. the addition of certain expenses to the list of expenses eligible for the tax credit for medical expenses (BR 2);¹¹⁸

117 DEPARTMENT OF FINANCE CANADA, *Economic Action Plan 2014 – The Road to Balance: Creating Jobs and Opportunities*, February 11, 2014, Annex 2, "Tax Measures: Supplementary Information, Notices of Ways and Means Motions and Draft Amendments to Various GST/HST Regulations", p. 311.

118 The references in parentheses correspond to the number of the budget resolution (BR) of the Notice of Ways and Means Motion to Amend the *Income Tax Act* and Other Tax Legislation tabled in the House of Commons on February 11, 2014.

2. the introduction of a tax credit for volunteers participating in search and rescue activities (BR 3 to BR 6), it being understood that the tax credit conversion rate will be equal to the rate applicable to the first taxable income bracket of the personal income tax table;¹¹⁹
3. to the property used in the course of carrying on a farming business and a fishing business (BR 8);
4. the tax deferral granted to certain farmers located in regions hit by drought, flooding or excessive moisture (BR 9);
5. the inclusion of certain income attributed to a minor by a partnership or a trust for the purposes of calculating tax on split income (BR 13);
6. the elimination of graduated rate taxation for certain trusts and estates (BR 14 to BR 16, BR 18, BR 19, BR 22 and BR 24 to BR 27);
7. the elimination of the 60-month exemption from the residency presumption rules that apply to non-resident trusts and from certain other related rules (BR 28 and BR 29);
8. the extension from five to ten years of the deferral period of gifts of ecosensitive land made by an individual (BR 31);
9. donations in the context of death (BR 32);
10. donations of cultural property acquired under a gifting arrangement that is a tax shelter (BR 33);
11. the registration of organizations or associations that receive gifts from foreign states that support terrorism (BR 34);
12. the change to the anti-avoidance rule concerning captive insurance corporations (BR 35);
13. the addition of new eligibility conditions to the exception relating to offshore regulated financial institutions (BR 36);
14. the change to the anti-avoidance rule currently contained in the thin capitalization rules (BR 37);
15. the increase in the thresholds determining how frequently employers must remit withholdings at source;¹²⁰
16. the changes concerning the accelerated capital cost allowance for clean energy generation equipment to include water-current energy equipment and gasification equipment.¹²¹

119 This rate is currently 16%.

120 DEPARTMENT OF FINANCE CANADA, *Economic Action Plan 2014*, p. 335-336.

121 *Ibid.*, p. 336-338.

Moreover, although they do not require any legislative or regulatory amendment, the measure relating to the inclusion of income paid to an amateur athlete trust for the purpose of determining the maximum amount deductible on account of registered retirement savings plans (BR 10) and the one relating to the cap on transfers of pension benefits to registered retirement savings plans where the amount of accumulated benefits has been reduced in particular because of the under-funding of the registered pension plan¹²² will also be retained for the purposes of Québec's tax system.

■ Measures not retained

Some measures have not been retained because they do not correspond to the features of Québec's tax system or because Québec's tax system is satisfactory or has no corresponding provisions. These measures relate to:

- the increase in the maximum amount of expenditures eligible for the adoption expense tax credit (BR 1);
- the extension of the mineral exploration tax credit for flow-through share investors (BR 7);
- the automatic determination of the GST/HST credit (BR 11 and BR 12);
- consequential amendments arising from the elimination of graduated rate taxation for certain trusts and estates (BR 17, BR 20, BR 21 and BR 23);
- the extension from five to ten years of the deferral period of gifts of ecosensitive land made by a corporation (BR 30);
- the addition of a specific anti-avoidance rule concerning tax withholding on interest payments (BR 38).

□ Measures relating to the GST/HST

Changes will be made to the Québec sales tax (QST) system to incorporate, with adaptations on the basis of its general principles, the federal measures relating to the GST/HST election for closely related persons (BR 6)¹²³ and those seeking to strengthen compliance with GST/HST registration (BR 7, BR 8 and the measures proposed in the Draft Amendments to Various GST/HST Regulations).

Moreover, it should be noted that it was previously announced, in *Information Bulletin 2014-4* of February 12, 2014, that the QST system will be harmonized with certain changes to the GST/HST system proposed in the federal budget tabled February 11, 2014. These harmonization decisions concern the federal measures to improve the application of the GST/HST in the health care sector (BR 1 to BR 5).

122 *Ibid.*, p. 326-327.

123 The references in parentheses correspond to the number of the budget resolution (BR) of the Notice of Ways and Means Motion to Amend the *Excise Tax Act* tabled in the House of Commons on February 11, 2014.

5.2 Tax treatment of awards paid under the Offshore Tax Informant Program

The Canada Revenue Agency launched the Offshore Tax Informant Program on January 15, 2014. This program offers financial awards to individuals who supply information on major cases of international tax non-compliance resulting in the recovery of a substantial amount of tax owing.

To reflect the introduction of this new program, various amendments to the federal tax legislation and regulations have been brought forward in Bill C-31, entitled *Economic Action Plan 2014 Act, No. 1*.¹²⁴ Briefly, these amendments stipulate that:

- tax must be withheld at source regarding awards paid to an informant under the terms of a contract entered into under a program administered by the Canada Revenue Agency that helps in obtaining information on tax non-compliance;
- an award paid to a taxpayer under the terms of such a contract must be included in the calculation of his income for the taxation year in which it is received;
- the recipient of an award may deduct, in calculating his income, any amount paid to reimburse an award already included in the calculation of his income.

Given that, in general, Québec's tax system is harmonized with the federal tax system with respect to the tax treatment applicable to various sources of income, Québec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the federal amendments relating to the tax treatment applicable to awards paid under the Offshore Tax Informant Program or a similar program that are stipulated in sections 2, 3, 23 and 32 of Bill C-31.

For greater clarity, the amount of the tax withholding at source in respect of an award paid under the Offshore Tax Informant Program or a similar program will be equal to 20% of the amount paid.

These amendments to Québec's tax system will apply on the same dates as they do in the federal tax system.

5.3 Harmonization with certain technical measures made public on April 8, 2014

On April 8, 2014, the Department of Finance Canada made public, in a news release, draft legislative and regulatory proposals making technical changes to the income tax system and the goods and services tax and harmonized sales tax (GST/HST) system to improve their fairness and certainty.¹²⁵

124 This bill was tabled in the House of Commons on March 28, 2014.

125 DEPARTMENT OF FINANCE CANADA, *News Release 2014-051 - Department of Finance Releases Income and Sales Tax Technical Amendments for Public Comment*, April 8, 2014, www.fin.gc.ca/n14/14-051-eng.asp.

❑ Measures relating to income tax

The measures relating to income tax deal with the Canadian Film or Video Production Tax Credit and the communication of information.

The proposals to that effect were previously made public in a news release, in particular on July 18, 2005.¹²⁶

The Ministère des Finances made Québec's position on these proposals known in 2006.¹²⁷ However, it is useful to recall this position.

Accordingly, these measures will not be retained because Québec's tax system has its own features regarding the tax assistance granted in relation to a film or television production and regarding the communication of information.

❑ Measures relating to the GST/HST

In accordance with the principle of general harmonization of the Québec sales tax (QST) system with the GST/HST system, Québec's tax system will be changed to incorporate, with adaptations on the basis of its general principles and specific features arising from the provincial context, the federal measures:

- making technical changes to the provisions concerning real property to ensure consistent treatment of different types of housing and see that the special valuation rule for subsidized housing applies as it should within the framework of the rules on the place of supply as in the context of a change in the tax rate;
- clarifying the application of GST/HST public service body rebates in relation to non-profit organizations that operate certain health care facilities;
- zero-rating precious metals refining services supplied to non-resident persons not registered for the purposes of the GST/HST system;
- simplifying the tax treatment of the temporary importation of certain railcars;
- codifying the longstanding relieving provisions related to the tax treatment upon re-entry into Canada of Canadian goods on which the GST/HST has already been paid;
- updating certain legislative references stipulated in the regulations, other than the reference stipulated in the *Taxes, Duties and Fees (GST/HST) Regulations*, which has no equivalent in the QST system.

126 DEPARTMENT OF FINANCE CANADA, *News Release 2005-049 - Revised Legislative Proposals Released Relating to the Taxation of Non-Resident Trusts and Foreign Investment Entities and Other Technical Amendments to the Income Tax Act*, July 18, 2005, www.fin.gc.ca/n05/05-049-eng.asp.

127 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2006-2007 – Additional Information on the Budgetary Measures*, March 23, 2006, Section 1, p. 159 and 161.

The harmonization measures retained in Québec's tax system will be adopted only after the assent of any law or the adoption of any regulation stemming from the federal news release, taking into account the technical changes that may be made prior to such assent or adoption. They will apply on the same dates as those retained for the purposes of the federal measures with which they harmonize, except for the measures applicable before July 1, 1992 or since July 1, 2010 that, for the purposes of the QST system, will take effect on July 1, 1992 and January 1, 2013 respectively.