

BUDGET

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ADDITIONAL

INFORMATION



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Additional Information

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1. MEASURE CONCERNING INDIVIDUALS

1.1 Enhancement of the tax credit for experienced workers to bank on career extension

To encourage experienced workers to remain in or re-enter the labour market, the tax system grants older workers aged 61 or over a tax credit that allows them to eliminate the income tax payable on a portion of their eligible work income that exceeds the first \$5 000.

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

Also, to ensure that this measure is directed primarily toward persons who may be influenced by such an incentive to remain in or re-enter the labour market, the tax credit was made reducible based on work income for 2016 and subsequent years. However, for workers who were aged 65 or over in 2015, the tax credit may not be lower than the credit that would be determined in their respect if the maximum amount of eligible work income had remained the same as in 2015 and the tax credit were not reducible based on work income.

To increase the presence of experienced workers in the labour market, various changes have been made to the tax credit in recent years.¹ Essentially, these changes enhanced the tax credit for experienced workers either by lowering the age of eligibility or by increasing the maximum amount of eligible work income on which the tax credit was calculated.

As of the 2019 taxation year, the tax credit for experienced workers will be renamed the tax credit for career extension. Also, to encourage more experienced workers to remain longer in or to re-enter the labour market, changes will also be made to the tax credit as of the 2019 taxation year.

Firstly, the age of eligibility for the tax credit will be lowered to 60. Secondly, for workers aged 61 to 64, the maximum amount of eligible work income on which the tax credit is calculated will be raised to \$10 000. For the new category of workers aged 60, the maximum amount of eligible work income on which the tax credit is calculated will also be \$10 000. The tax credit for career extension will thus be calculated on the same maximum amount of eligible work income for workers aged 60 to 64.

The following table shows the adjustment of the tax credit for career extension for taxation years subsequent to 2014.

¹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.6-A.12; MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2016-2017*, March 17, 2016, pp. A.24-A.27; *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, pp. A.22-A.27.

TABLE A.1

Adjustment of maximum eligible work income above the first \$5 000 based on worker's age
(dollars)

Age of worker	Maximum eligible work income above the first \$5 000				
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽¹⁾	As of 2019 ⁽²⁾
65 or over	4 000	6 000	8 000	11 000	11 000
64	—	4 000	6 000	9 000	10 000
63	—	—	4 000	7 000	10 000
62	—	—	—	5 000	10 000
61	—	—	—	3 000	10 000
60	—	—	—	—	10 000

(1) For this taxation year, the tax credit was called the tax credit for experienced workers.

(2) For these taxation years, the tax credit is called the tax credit for career extension.

More specifically, the tax legislation will be amended to provide that an individual who is resident in Québec at the end of a particular taxation year subsequent to 2018—or, if the individual dies in the particular year, on the date of his or her death—may deduct, in calculating his or her income tax otherwise payable for the particular year on account of the tax credit for career extension, an amount equal to the amount determined using the following formula:

$$(A \times B) - (0.05 \times C)$$

For the purposes of this formula:

- the letter A represents the rate applicable for the particular taxation year to the first taxable income bracket of the personal income tax table;²
- the letter B represents:
 - if the individual is aged 66 or over at the end of the particular year or on the date of the individual's death, the amount by which the individual's eligible work income for the year attributable to that year exceeds \$5 000, to a maximum of \$11 000,
 - if the individual is aged 65 at the end of the particular year or on the date of the individual's death, the aggregate of the following amounts, to a maximum of \$11 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual was under age 65 exceeds \$5 000, to a maximum of \$10 000,

² The rate currently applicable to this bracket is 15%.

- the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual was age 65 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which the individual was under age 65,
 - if the individual is aged 61 to 64 at the end of the particular year or on the date of the individual's death, the amount by which the individual's eligible work income for the year attributable to that year exceeds \$5 000, to a maximum of \$10 000,
 - if the individual is aged 60 at the end of the particular year or on the date of the individual's death, the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual was aged 60 exceeds \$5 000, to a maximum of \$10 000,
 - in all other cases, zero;
- the letter C represents the amount by which the individual's eligible work income for the particular taxation year exceeds the reduction threshold applicable for the particular taxation year for the purposes of calculating the tax credit for persons living alone, with respect to age and for retirement income.

However, where an individual reaches age 65 before the end of 2015 (an individual born before January 1, 1951), the amount of the tax credit the individual may claim for the particular taxation year may not be less than the amount determined using the following formula:

$$\begin{array}{l} \text{The rate applicable for the particular} \\ \text{taxation year to the first taxable} \\ \text{income bracket of the personal} \\ \text{income tax table} \end{array} \times \begin{array}{l} \$4\,000 \text{ or the amount by which the} \\ \text{individual's eligible work income for} \\ \text{the particular taxation year exceeds} \\ \$5\,000, \text{ whichever is lower} \end{array}$$

Moreover, consequential amendments will be made to the rules applicable to the determination of the tax credit for career extension for a calendar year subsequent to 2018 in which an individual becomes bankrupt, in order to take into account, firstly, the fact that the maximum amount of eligible work income on which the tax credit will be calculated for workers aged 60 to 64 will be \$10 000 and, secondly, the fact that the age of eligibility for the tax credit will be lowered to 60.

2. MEASURES CONCERNING BUSINESSES

2.1 Introduction of a refundable tax credit for SMBs to foster the retention of experienced workers

To encourage experienced workers to remain in or re-enter the labour market, the tax system grants them a tax credit that allows them to eliminate the income tax payable on a portion of their work income.³ To supplement this assistance granted to workers and to encourage SMBs to hire or retain workers aged 60 or over, the refundable tax credit to foster the retention of experienced workers will be introduced.

Briefly, this refundable tax credit will be granted to qualified corporations that employ individuals aged 60 or over. It will be calculated on the employer contributions paid by the corporation in respect of such an employee. The rate of the refundable tax credit will vary based, firstly, on the individual's age and, secondly, the corporation's total payroll. Thus, in respect of an employee aged at least 60 but no older than 64, the tax credit that can be claimed by a qualified corporation with a total payroll of \$1 million or less, on the employer contributions paid in respect of such an employee, will be calculated at a rate of 50% and can total as much as \$1 250 annually. In respect of an employee aged at least 65, the tax credit such a corporation can claim on employer contributions paid in respect of such an employee will be calculated at a rate of 75% and can total as much as \$1 875 annually.

A qualified corporation that is a member of a qualified partnership can also claim this refundable tax credit at a rate of up to 50% on its share of the employer contributions paid by the qualified partnership in respect of an employee aged at least 60 but no older than 64, and at a rate of up to 75% on its share of the employer contributions paid by the qualified partnership in respect of an employee aged at least 65.

□ Determination of the refundable tax credit

The tax legislation will be amended so that a qualified corporation can, for a taxation year, claim, for that taxation year, a refundable tax credit corresponding to the aggregate of the following amounts:

- the product obtained by multiplying, by the corporation's eligible rate of the tax credit for the taxation year, the aggregate of the amounts each of which is the corporation's qualified expenditure in respect of an eligible employee for the taxation year;
- the product obtained by multiplying, by the corporation's specified rate of the tax credit for the taxation year, the aggregate of the amounts each of which is the corporation's specified expenditure for a specified employee for the taxation year.

³ An enhancement to this tax credit is announced in the present budget (see subsection 1.1).

Likewise, a qualified corporation, for a taxation year, that is a member of a qualified partnership at the end of a fiscal period of the partnership that ends in the taxation year, will be able to claim, for that taxation year, a refundable tax credit corresponding to the aggregate of the following amounts:

- the product obtained by multiplying, by the partnership's eligible rate of the tax credit for the fiscal period ended in the taxation year, the aggregate of the amounts each of which is the corporation's share of the qualified expenditure of the partnership in respect of an eligible employee for that fiscal period;
- the product obtained by multiplying, by the partnership's specified rate of the tax credit for the fiscal period ended in the taxation year, the aggregate of the amounts each of which is the corporation's share of the specified expenditure of the partnership in respect of a specified employee for that fiscal period.

In this regard, a qualified corporation's share of an expenditure of a qualified partnership of which it is a member at the end of a fiscal period will be equal to the agreed proportion,⁴ in respect of the qualified corporation for that fiscal period, of that expenditure.

☐ Qualified corporation

For the purposes of the refundable tax credit to foster the retention of experienced workers, a qualified corporation, for a taxation year, will mean a corporation, other than an excluded corporation, that has an establishment in Québec and carries on a business there, whose paid-up capital, for the year, is less than \$15 million⁵ and, except where the corporation is a primary and manufacturing sectors corporation for the year,⁶ whose total remunerated hours, for the year, exceeds 5 000.⁷

■ Excluded corporation

An excluded corporation, for a taxation year, will mean:

- a corporation exempt from tax for the taxation year;
- a Crown corporation or a wholly-controlled subsidiary of such a corporation.

⁴ *Taxation Act*, s. 1.8. Briefly, the agreed proportion in respect of a corporation that is a member of a partnership, for a fiscal period, corresponds to the proportion that the corporation's share of the partnership's income or loss for the fiscal period is of the partnership's income or loss for that fiscal period.

⁵ In general, the paid-up capital of a corporation, for a particular taxation year, is equal to its paid-up capital determined for the taxation year preceding the particular year. Where the corporation is a member of an associated group, for a taxation year, the corporation's paid-up capital take into account the paid-up capital of the members of the associated group, according to the usual rules.

⁶ *Taxation Act*, s. 771.1.

⁷ *Ibid.*, s. 771.2.1.2.1. Briefly, the number of remunerated hours of a corporation, for a particular taxation year, corresponds to either the number of remunerated hours determined in respect of the corporation's employees for the particular year or the number of remunerated hours determined in respect of the corporation's employees and the employees of the corporations with which it is associated in the particular year, for the taxation years of those corporations that ended in the calendar year preceding the calendar year in which the particular year ends, whichever is greater.

❑ Qualified partnership

For the purposes of the refundable tax credit to foster the retention of experienced workers, a qualified partnership, for a fiscal period, will mean a partnership that has an establishment in Québec, that carries on a business there and whose paid-up capital, for the fiscal period, is less than \$15 million.⁸ Also, the number of remunerated hours of the partnership's employees must, for the fiscal period, exceed 5 000, except in the case of a partnership that would have been a primary and manufacturing sectors corporation, for the fiscal period, if it had been a corporation.⁹

❑ Tax credit rate

The eligible rate of the tax credit of a corporation, for a taxation year, or of a partnership, for a fiscal period, will be equal to the rate obtained by the following formula:

$$75\% - \left(75\% \times \frac{A}{B} \right)$$

The specified rate of the tax credit of a corporation, for a taxation year, or of a partnership, for a fiscal period, will be equal to the rate obtained by the following formula:

$$50\% - \left(50\% \times \frac{A}{B} \right)$$

In these formulas:

- the letter A corresponds to the amount by which the total payroll of the corporation, for the calendar year that ended in the taxation year, or the total payroll of the partnership, for the calendar year that ended in the fiscal period, as applicable, or the amount corresponding to the total payroll threshold applicable for that calendar year, whichever is lower, exceeds \$1 million;
- the letter B corresponds to the amount by which the amount corresponding to the total payroll threshold applicable for the calendar year that ended in the taxation year or fiscal period, as applicable, exceeds \$1 million.

⁸ The rules applicable for the determination of the paid-up capital of a corporation will apply as if the partnership were a corporation (see note 5).

⁹ *Taxation Act*, s. 771.2.1.2.2 (determination of remunerated hours). Briefly, the proportion of the corporation's primary and manufacturing sectors activities, for the fiscal period, must exceed 25%.

■ Total payroll

The total payroll of a qualified corporation or of a qualified partnership, for a calendar year, will correspond to its total payroll, for that calendar year, that is determined in order to calculate its employer contribution payable to the Health Services Fund under the *Act respecting the Régie de l'assurance maladie du Québec*¹⁰ for that calendar year.¹¹

■ Total payroll threshold

The total payroll threshold applicable, for a calendar year, will correspond to the total payroll threshold applicable for that calendar year for determining the employer contribution payable to the Health Services Fund under the *Act respecting the Régie de l'assurance maladie du Québec*.

It corresponds to \$6 million for the 2019 and 2020 calendar years, \$6.5 million for the 2021 calendar year and \$7 million for the 2022 calendar year. For the 2023 and subsequent calendar years, it will be automatically indexed each year.¹²

□ Qualified expenditure and specified expenditure

The qualified expenditure of a qualified corporation in respect of an eligible employee, for a taxation year, or of a qualified partnership in respect of an eligible employee, for a fiscal period, will mean the amount that the corporation or partnership, as applicable, paid as employer contributions for a calendar year subsequent to 2018 that ended in the taxation year, or for a calendar year subsequent to 2018 that ended in the fiscal period, as applicable, for salary, wages or other remuneration that the corporation or partnership paid, allocated, granted, awarded or attributed in the calendar year to that employee.

The qualified expenditure of a qualified corporation or qualified partnership in respect of an eligible employee, for a taxation year or a fiscal period, as applicable, may not, however, exceed the quotient obtained by dividing \$1 875 by, respectively, the eligible rate of the tax credit of the qualified corporation for the taxation year or the eligible rate of the tax credit of the qualified partnership for the fiscal period.

The specified expenditure of a qualified corporation in respect of a specified employee, for a taxation year, or of a qualified partnership in respect of a specified employee, for a fiscal period, will mean the amount that the corporation or partnership, as applicable, paid as employer contributions for a calendar year subsequent to 2018 that ended in the taxation year or for a calendar year subsequent to 2018 that ended in the fiscal period, as applicable, for salary, wages or other remuneration that the corporation or partnership paid, allocated, granted, awarded or attributed in the calendar year to that employee.

¹⁰ CQLR, chapter R-5.

¹¹ Under current tax legislation, the total payroll of an employer for a calendar year takes into account the payroll of any employers associated with that employer at the end of the calendar year, as applicable.

¹² MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, pp. A.59-A.60.

The specified expenditure of a qualified corporation or qualified partnership in respect of a specified employee, for a taxation year or a fiscal period, as applicable, may not, however, exceed the quotient obtained by dividing \$1 250 by, respectively, the specified rate of the tax credit of the qualified corporation for the taxation year or the specified rate of the tax credit of the qualified partnership for the fiscal period.

The amount of a qualified expenditure or specified expenditure of a corporation or partnership, as applicable, must be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit attributable to the expenditure, according to the usual rules.

■ Employer contributions

The employer contributions paid by a qualified corporation or qualified partnership, for a calendar year, in respect of an employee will mean the amounts paid by the corporation or partnership, as applicable, for that calendar year in respect of that employee under the following provisions:

- section 59 of the *Act respecting parental insurance*;¹³
- section 39.0.2 of the *Act respecting labour standards*;¹⁴
- section 34 of the *Act respecting the Régie de l'assurance maladie du Québec*;
- section 52 of the *Act respecting the Québec Pension Plan*.¹⁵

An employer contribution paid by a qualified corporation or qualified partnership, for a calendar year, in respect of an employee, will also mean an amount paid for that calendar year as an assessment by the qualified corporation or qualified partnership in respect of the employee under the *Act respecting industrial accidents and occupational diseases*.¹⁶

□ Eligible employee and specified employee

An eligible employee of a qualified corporation, for a taxation year, or of a qualified partnership, for a fiscal period, will mean, respectively, an employee of the corporation at a time in the calendar year that ended in the taxation year, or of the partnership at a time in the calendar year that ended in the fiscal period, who is aged 65 or over on January 1 of the calendar year, other than an employee who is an excluded employee at a time in the calendar year.

A specified employee of a qualified corporation, for a taxation year, or of a qualified partnership, for a fiscal period, will mean, respectively, an employee of the corporation at a time in the calendar year that ended in the taxation year, or of the partnership at a time in the calendar year that ended in the fiscal period, who is aged 60 or over but no older than 64 on January 1 of the calendar year, other than an employee who is an excluded employee at a time in the calendar year.

¹³ CQLR, chapter A-29.011.

¹⁴ CQLR, chapter N-1.1.

¹⁵ CQLR, chapter R-9.

¹⁶ CQLR, chapter A-3.001.

■ Excluded employee

An excluded employee, at a particular time, will mean:

- where the employer is a corporation, an employee who is, at that time, a specified shareholder¹⁷ of the corporation or, where the corporation is a cooperative, a specified member of the corporation;
- where the employer is a partnership, an employee who is, at that time, either a member of that partnership or a person not dealing at arm's length with that member, or a specified shareholder or specified member, as applicable, of the member.

A specified member, at a particular time, of a corporation that is a cooperative will mean a member having, directly or indirectly, at that time, at least 10% of the votes at a meeting of the members of the cooperative or a person not dealing at arm's length with that member.

□ Other terms and conditions

Where, at the end of a calendar year, qualified corporations or qualified partnerships are associated with each other and they have paid an amount, as salary, wages or other remuneration to the same individual who is an eligible employee of each of them at a time in the calendar year, the total of all the amounts each of which is a qualified expenditure in respect of the employee for a member of the associated group, for the taxation year of a qualified corporation in which the calendar year ends or for the fiscal period of the qualified partnership in which the calendar year ends, as applicable, may not exceed the quotient obtained by dividing \$1 875 by the eligible rate of the tax credit of the corporation for the taxation year or of the partnership for the fiscal period.

This will also be the case for the total of all the amounts each of which is a specified expenditure in respect of a specified employee for a member of the associated group, for the taxation year of a qualified corporation in which the calendar year ends or for the fiscal period of the qualified partnership in which the calendar year ends, as applicable, which may not exceed the quotient obtained by dividing \$1 250 by the specified rate of the tax credit of the corporation for the taxation year or of the partnership for the fiscal period.

Failing agreement among the members of the associated group, the eligible expenditure or the specified expenditure of each of the members for the taxation year or fiscal period, in respect of the employee, will be deemed equal to zero.

¹⁷ A specified shareholder of a corporation, at a particular time, includes a taxpayer that owns, directly or indirectly, at that time, not less than 10% of the issued shares of any class of the capital stock of the corporation or of any other corporation that is related to the corporation and a person not dealing at arm's length with such a taxpayer.

Likewise, where in respect of a salary or wages paid by a qualified corporation or by a qualified partnership to an eligible employee or a specified employee, the corporation or partnership can claim the tax holiday from the employer contribution to the Health Services Fund in application of the tax holiday for large investment projects, the corporation will not be able to claim the refundable tax credit to foster the retention of experienced workers in respect of the expenditure for that salary or those wages.

Finally, where more than one calendar year ends in a taxation year of a qualified corporation, the refundable tax credit that the qualified corporation may claim, for the taxation year, will correspond to the total of the amounts determined in respect of each calendar year that ended in the taxation year as if each of them had ended in a different taxation year.

This rule will apply, with the necessary adaptations, for the calculation of the refundable tax credit to which a qualified corporation that is a member of a qualified partnership is entitled, for a taxation year in which a fiscal period of the partnership ends, where more than one calendar year ends in that fiscal period.

□ Application date

These amendments will be applicable in respect of a taxation year that ends after December 31, 2018.

2.2 Reduction of the capital investment threshold applicable to a large investment project in a designated region

As part of Budget Speech 2013-2014,¹⁸ a tax holiday for large investment projects was announced.

Briefly, a corporation that carries out a large investment project in Québec may, under certain conditions, claim a tax holiday in respect of the income from its eligible activities relating to the project and a holiday from employer contributions to the Health Services Fund (HSF) regarding the portion of wages paid to its employees that is attributable to the time they devote to such activities.

Similarly, a partnership that carries out a large investment project in Québec may, under certain conditions, claim a holiday from HSF contributions regarding the portion of wages paid to its employees that is attributable to the time they devote to eligible activities relating to the project. A corporation that is a member of the partnership may claim a tax holiday in respect of its share of the income from eligible activities of the partnership relating to the project.

This tax holiday lasts 15 years. The tax assistance relating to a large investment project may not exceed 15% of the total qualified capital investments relating to the project, determined on the date that the tax-free period begins.

¹⁸ MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Budget 2013-2014 – Budget Plan*, November 20, 2012, pp. H.23-H.32.

To claim the tax holiday, a corporation or a partnership must obtain an initial qualification certificate and annual certificates issued by the Minister of Finance. An application for an initial qualification certificate must be made before the investment project begins to be carried out and not later than December 31, 2020.¹⁹

A corporation or partnership that obtained an initial qualification certificate may, under certain conditions, apply to the Minister of Finance to have the certificate amended in order to add a second investment project that builds on the first project, provided it otherwise complies with the terms and conditions of the tax holiday.²⁰

To qualify as a large investment project, a project must, among other things, pertain to activities in one of the following sectors: manufacturing, wholesale trade, warehousing and storage, data processing, hosting and related services, or, as of March 28, 2018, development of eligible digital platforms.²¹

Realization of the project must also meet a requirement to reach the capital investment threshold applicable to the project within the 60-month start-up period, starting on the date the initial qualification certificate is issued, and to maintain that threshold throughout the tax-free period.

As of February 11, 2015, the capital investment threshold that must be met for project qualification purposes is \$100 million or \$75 million. In the latter case, all or substantially all of the investment project must be carried out in a designated region and all or substantially all of the activities stemming from the project must be carried out in such a region throughout the tax-free period.

The designated regions are the following administrative regions, regional county municipalities (RCMs) and urban agglomeration: the Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie-Îles-de-la-Madeleine, Nord-du-Québec and Saguenay-Lac-Saint-Jean administrative regions; the Le Granit, Le Haut-Saint-François, Mékinac, Pontiac, La Vallée-de-la-Gatineau, Antoine-Labelle and Charlevoix-Est RCMs; and the urban agglomeration of La Tuque.

To further stimulate the carrying out of structuring projects in these designated regions, the capital investment threshold applicable to them will be further reduced, from \$75 million to \$50 million.

¹⁹ MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2017-2018*, March 28, 2017, p. A.31.

²⁰ Applications for amendment of an initial qualification certificate must be filed with the Minister of Finance before the second investment project begins to be carried out, before January 1, 2021 and not later than the date the application for the first annual certificate is made for the first investment project. The terms and conditions of the tax holiday in respect of a second investment project are described in greater detail in *The Québec Economic Plan – Additional Information 2017-2018*, pp. A.30-A.35.

²¹ MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, pp. A.66-A.69.

Thus, the *Act respecting the sectoral parameters of certain fiscal measures*²² will be amended so that an investment project carried out in a designated region can qualify as a large investment project, for the purposes of tax holiday, if the total capital investments attributable to the carrying out of the project reaches at least \$50 million no later than the end of the start-up period and it meets all the other conditions of eligibility.

This reduction of the capital investment threshold will also apply in respect of the requirement to maintain that threshold throughout the tax-free period.

□ Application date

This change will apply to investment projects for which an application for an initial qualification certificate is filed after the day of the budget speech.

This change may also apply to investment projects in respect of which a corporation or partnership has already applied for an initial qualification certificate on or before the day of the budget speech, but which begin to be carried out after the day of the budget speech. To do so, the corporation or partnership must apply in writing to the Minister of Finance before January 1, 2021, but not later than the date it submits its first application for the annual certificate for its investment project.

²² CQLR, chapter P-5.1.

3. OTHER MEASURES

3.1 Application of the tax on lodging to the activities of persons operating a digital platform offering accommodation units

In 1996, the government set up a tourism partnership fund to strengthen and sustain the promotion and development of Québec tourism. The fund is financed in part by a tax on lodging that, since April 1, 1997, may be applied to each accommodation unit rented in a sleeping-accommodation establishment located in a Québec tourist region that makes such a request to the government through its regional tourism association (RTA).

The revenues generated by this tax, minus the costs of its administration, are returned to the participating regions, and the amounts thus returned are used in accordance with the terms and conditions agreed to in a memorandum of understanding between the Ministère du Tourisme and the RTAs of the participating regions. Currently, this tax is applicable in 21 of Québec's 22 tourist regions.²³

For a number of years, Québec, like other jurisdictions elsewhere in the world, has seen the spread of various business models within a broader e-commerce framework. The emergence of online businesses in a variety of economic sectors has prompted the Québec government to examine various ways of adapting its tax system to the new reality of the digital era, out of a concern for integrity and fairness with respect to businesses carried on in a more conventional manner.

In the tourism industry, this development since the introduction of the tax on lodging has resulted in the growing presence of digital platforms, which are often operated out of another country. In this business model, the platform operator uses the platform to bring together two third parties—a person offering an accommodation unit and a tourist—provides a framework for their interaction and manages the financial transactions between the two parties. Such a platform is hereinafter called “digital accommodation platform.” For the purposes of the tax on lodging system, an operator of a digital accommodation platform that is neither an operator of a sleeping-accommodation establishment nor an intermediary had no obligations under the system prior to the announcement made in *Information Bulletin 2017-9*.²⁴

To take into account this new business model, changes were made to the tax on lodging system to permit a person operating a digital accommodation platform to register voluntarily in the tax on lodging system.

However, the rapid growth of the sharing economy continues to have major impacts on the tourism industry. Accordingly, to ensure greater fairness among the various stakeholders in this industry, further changes will be made to the tax on lodging system.

²³ The only tourist region where the tax does not apply is Nunavik.

²⁴ MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2017-9*, August 29, 2017.

❑ **Mandatory registration for the tax on lodging**

Currently, a person operating a digital accommodation platform may register voluntarily in the tax on lodging system.

Changes will be made to the tax on lodging system so that a person operating a digital accommodation platform will henceforth be required to register with Revenu Québec for the purposes of collecting and remitting the tax on lodging.

A person so registered will be required, in respect of any accommodation unit covered by the system rented in a sleeping-accommodation establishment located in a participating tourist region, hereinafter called “particular accommodation unit,” to collect or pre-collect the 3.5% tax on the price of every overnight stay, render an account of it and remit it in accordance with the existing terms and conditions under the tax on lodging system, where such a unit is supplied through the person's digital accommodation platform and is billed at a time when the person's registration is in effect.

For this purpose, such a person will be required to render an account of the tax on lodging by means of a prescribed form containing the prescribed information, in the same manner as persons required under the tax on lodging system to collect the tax or an amount equal to it, and remit it to the Minister.

Also, registration of a person operating a digital accommodation platform will be subject to the same rules as those currently provided for in the tax on lodging system in respect of registration by persons required to remit to the Minister the tax on lodging or an amount equal to the tax.

For greater clarity, it will thus no longer be possible for a person operating a digital accommodation platform to register voluntarily in the tax on lodging system.

Finally, changes will be made to the tax on lodging system so that a customer who acquires an accommodation unit from a registered person operating a digital accommodation platform and pays an amount on account of the tax on lodging in respect of such a unit, where the unit is not a particular accommodation unit, may apply for a refund from the registered person operating the digital accommodation platform.²⁵

❑ **Application date**

These changes will apply from the first day of the first calendar quarter beginning at least 180 days after the date on which the bill implementing these measures is assented to.

²⁵ Such a refund is possible from Revenu Québec under current tax legislation.

3.2 Introduction of a sustainable development certification allowance in the *Mining Tax Act*

Under the *Mining Tax Act*, an operator is required to pay, for a fiscal year, mining duties equal to the greater of its minimum mining tax and its mining tax on its annual profit, for the fiscal year.

An operator's mining tax on its annual profit, for a fiscal year, is equal to the sum of the amounts obtained by applying each of the tax rates of 16%, 22% and 28% to a segment of the operator's annual profit for the fiscal year determined on the basis of its profit margin for the fiscal year.

Briefly, an operator's annual profit, for a fiscal year, is established by subtracting, from the total of all amounts each of which is the annual earnings in respect of each mine operated by the operator during the fiscal year, certain expenses and certain amounts on account of allowances related to its mining operations for that fiscal year, such as the amount on account of the exploration allowance and the amount on account of the environmental studies allowance.

Over the past few years, a multidisciplinary research team of the UQAT-UQAM chair in mining entrepreneurship has worked to develop a certification standard designed to encourage the application of good environmental, social and economic practices in the mineral exploration industry. This standard will be published by an independent certification organization, which will be responsible for examining compliance of mining operators' practices with the standard and certifying operators.

To encourage mining operators in their efforts to apply best environmental, social and economic practices, a sustainable development certification allowance will be introduced in the mining tax regime.

□ Sustainable development certification allowance

The *Mining Tax Act* will be amended so that an operator can deduct, in the calculation of its annual profit for a fiscal year, an amount on account of the sustainable development certification allowance, which may not exceed, for the fiscal year, the amount corresponding to its cumulative sustainable development certification expenses at the end of the fiscal year.

■ Cumulative sustainable development certification expenses

The amount of the cumulative sustainable development certification expenses of an operator, at a particular time, will correspond to the amount by which the aggregate of the sustainable development certification expenses incurred by the operator before that time, but after the day of the budget speech, exceeds the aggregate of the amounts deducted by the operator on account of the sustainable development certification allowance in the calculation of the operator's annual profit for a fiscal year ended before that time.

■ Sustainable development certification expenses

The sustainable development certification expenses of an operator will mean the fees required by the organization responsible for certification in respect of the sustainable development standard for the mineral exploration industry, developed by the UQAT-UQAM chair in mining entrepreneurship, to obtain or maintain certification and incurred by the operator with that organization.

■ Other terms and conditions

The treatment applicable to government assistance received, receivable or repaid and related to sustainable development certification expenses will be the same as that applicable to such assistance for the calculation of cumulative community consultations expenses and cumulative environmental studies expenses.

Moreover, the provisions applicable to the other allowances will also apply to this allowance.²⁶

□ Refundable duties credit for losses

An operator who sustains an annual loss rather than making an annual profit for a fiscal year may claim, for the fiscal year, a refundable duties credit for losses that may not exceed 16% of the lesser of the following amounts:

- its adjusted annual loss for the fiscal year; and
- the amount equal to the total of: the amount corresponding to the pre-production development expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the pre-production development allowance; the amount corresponding to community consultation expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the allowance for community consultations; and the amount corresponding to the environmental studies expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the environmental studies allowance; to which is added, if the operator is an eligible operator for the fiscal year, 50% of the amount corresponding to the exploration expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the exploration allowance.

Changes will be made to the refundable duties credit for losses of an operator, to take into account the introduction of the sustainable development certification allowance.

Consequently, the refundable duties credit for losses that an operator may claim for a fiscal year ending after the day of the budget speech may not exceed 16% of the lesser of the following amounts:

- its adjusted annual loss for the fiscal year; and

²⁶ *Mining Tax Act*, ss. 16.14 and 16.15.

— the amount equal to the total of: the amount corresponding to the pre-production development expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the pre-production development allowance; the amount corresponding to community consultation expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the allowance for community consultations; the amount corresponding to the environmental studies expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the environmental studies allowance; and the amount corresponding to the sustainable development certification expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the sustainable development certification allowance; to which is added, if the operator is an eligible operator for the fiscal year, 50% of the amount corresponding to the exploration expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the exploration allowance.

For greater clarity, the other rules applicable to the calculation of the refundable duties credit for losses that an operator may claim for a fiscal year remain unchanged.

Application date

These changes will apply to a fiscal year of an operator that ends after the day of the budget speech, in respect of sustainable development certification expenses incurred after that day.

3.3 Changes to certain measures respecting tips

In 1997, various measures were introduced aimed at improving and regularizing the situation with respect to the reporting of tips in the restaurant and hotel sector.

These measures require employees that receive tips in the course of their duties to report the amount to their employer in writing, except for tips that constitute service charges added to a customer's bill. Also, where the amount representing the aggregate of the tips, each of which is either a tip reported by the employee to the employer for a pay period or a tip included in the service charges added to a customer's bill that the employee received during that period, is an amount representing less than 8% of the employee's tippable sales for that pay period, the employer must generally attribute to the employee an amount as tips equal to the difference between these amounts.

Moreover, to encourage employers in the restaurant and hotel sector to fulfill their tax obligations, the *Tax Administration Act* provides that an employer that fails to make such an attribution incurs a penalty equal to 50% of the amount that was not attributed.²⁷

²⁷ *Tax Administration Act*, s. 59.1.

Also, employers are required to pay various charges²⁸ in respect of tips reported, tips included in service charges added to a customer's bill and tips attributed, and they must take these tips into account in calculating certain indemnities they are required, under certain laws²⁹ or under a collective agreement, to pay to their employees.

In order to partially offset the additional charges that employers in the restaurant and hotel sector must bear in respect of such tips, the tax system grants them a refundable tax credit.

More specifically, the refundable tax credit that a taxpayer can claim for a particular taxation year is equal to 75% of the aggregate of the taxpayer's eligible expenses for the taxation year or, if the eligible expenses are payable by a partnership, 75% of an amount representing the taxpayer's share of the aggregate of the partnership's eligible expenses for the partnership's fiscal period that ends in the taxpayer's taxation year.

Essentially, the eligible expenses in respect of an employer for a taxation year or fiscal period, as applicable, correspond to:

- the portion of the following employer contributions and premiums that is attributable to tips and was paid in respect of a calendar year ending in the taxation year or fiscal period, as applicable: Québec Pension Plan (QPP) contributions, Québec Parental Insurance Plan (QPIP) premiums, employment insurance premiums, the contribution to the Health Services Fund (HSF), the contribution related to labour standards and the contribution to the Commission des normes, de l'équité, de la santé et de la sécurité du travail;
- the portion of the employees' annual leave indemnity prescribed by the *Act respecting labour standards*, or the indemnity in lieu thereof provided for in an employment contract, that is attributable to tips and was received or is receivable for the taxation year or fiscal period, as applicable, and to employer contributions and premiums for the QPP, the QPIP, employment insurance and the HSF that are payable in respect of that part of the indemnity or would be payable if that indemnity had been paid in the taxation year or fiscal period, as applicable;
- the portion of the indemnities relating to statutory holidays prescribed by the *Act respecting labour standards* or the *National Holiday Act*, or the indemnities in lieu thereof provided for in an employment contract, that is attributable to tips and was paid in the taxation year or fiscal period, as applicable;

²⁸ That is, the contributions and premiums payable under the *Act respecting the Québec Pension Plan* (CQLR, chapter R-9), the *Act respecting parental insurance* (CQLR, chapter A-29.011), the *Employment Insurance Act* (S.C. 1996, chapter 23), the *Act respecting the Régie de l'assurance maladie du Québec* (CQLR, chapter R-5), the *Act respecting labour standards* (CQLR, chapter N-1.1) and the *Act respecting industrial accidents and occupational diseases* (CQLR, chapter A-3.001).

²⁹ That is, the *Act respecting labour standards* and the *National Holiday Act* (CQLR, chapter F-1.1).

— the portion of the indemnities for the days of leave for a family or parental event,³⁰ or the indemnities in lieu thereof provided for in an employment contract, that is attributable to tips and was paid in the taxation year or fiscal period, as applicable.

Moreover, as of January 1, 2019, the *Act respecting labour standards* provides that an employer is required to pay to employees, where they have at least three months of uninterrupted service and are absent from work to fulfill family obligations or for health reasons, indemnities of up to two days of paid leave per year for either of those reasons. The Act also provides that tips must be taken into account in determining these new indemnities.³¹

3.3.1 **New eligible expenses for the purposes of the refundable tax credit for the reporting of tips**

To take into account the new indemnities provided for in the *Act respecting labour standards* and to maintain the support offered to employers in the restaurant and hotel sector, the tax legislation will be amended to provide that the eligible expenses for the refundable tax credit for the reporting of tips will include the portion of the indemnities for days of leave to fulfill family obligations or days of leave for health reasons that is attributable to tips and that was paid in the taxation year or fiscal period, as applicable.³²

Days of leave to fulfill family obligations

Days of leave to fulfill family obligations will correspond to the days for which an employee may, according to the *Act respecting labour standards*, be absent from work, without reduction of wages, to fulfill obligations related to the care, health or education of the employee's child or the child of the employee's spouse, or because of the state of health of a relative or a person for whom the employee acts as a caregiver, as attested by a professional working in the health and social services sector and governed by the *Professional Code*.^{33, 34}

Days of leave for health reasons

Days of leave for health reasons will correspond to the days for which an employee may, according to the *Act respecting labour standards*, be absent from work, without reduction of wages, owing to sickness, an organ or tissue donation for transplant, an accident, domestic violence or sexual violence of which the employee has been a victim.³⁵

³⁰ That is, the days for which an employee may be absent from work, without reduction of wages, pursuant to sections 80, 81 and 81.1 of the *Act respecting labour standards*. Such an absence on the part of the employee is possible by reason of the death or funeral of certain family members, his or her wedding or civil union, the birth or adoption of his or her child or, in certain cases, following the termination of a pregnancy.

³¹ *Act respecting labour standards*, s. 50.

³² Employer contributions and premiums related to the portion of such indemnities that is attributable to tips constitute an eligible expense under current tax legislation.

³³ CQLR, chapter C-26.

³⁴ *Act respecting labour standards*, ss. 79.7 and 79.16.

³⁵ *Ibid.*, ss. 79.1 and 79.16.

❑ Application date

These amendments will apply to indemnities for days of leave to fulfill family obligations or for days of leave for health reasons paid after December 31, 2018.

3.3.2 Easing of the penalty for failure to attribute an amount as tips

The *Tax Administration Act*, in addition to generally applicable penalties, provides for a special penalty related to the attribution of tips. More specifically, an employer in the restaurant and hotel sector that fails to attribute to an employee, for a pay period, an amount as tips incurs a penalty equal to 50% of the amount that was not but should have been attributed.³⁶

Moreover, this Act also provides for a more generally applicable penalty where a taxpayer, wilfully or in circumstances equivalent to gross negligence, makes a false statement or an omission in a document made or filed for the purposes of a fiscal law or a regulation made under such a law, namely, the penalty for false statements or omissions. This penalty is equal to 50% of the amount unpaid, not remitted or over-refunded, or of the amount representing the difference between the amount refunded and the amount payable or remittable, resulting from such false statement or such omission.³⁷

To standardize the special penalty for attribution of tips with other existing penalties, an amendment will be made to the *Tax Administration Act* so that this special penalty is calculated based on the amounts payable or remittable under a tax law, and not based on the amount of the tips not attributed. Thus, where an employer fails to pay or remit a particular amount that the employer is required to pay or remit under a tax law and the particular amount is attributable to the amount of tips that was not but should have been attributed, the special penalty that the employer incurs will be equal to 50% of the particular amount.

Finally, the Act will be amended to provide that a person cannot incur both the penalty for false statements or omissions and the penalty related to the attribution of tips for the same omission.

These amendments will apply in respect of a penalty imposed after the day of the budget speech.

³⁶ *Tax Administration Act*, s. 59.1.

³⁷ *Ibid.*, s. 59.3.

3.4 Change to certain terms and conditions of application of the Fonds de solidarité FTQ's investment requirement

Since the creation of the Fonds de solidarité des travailleurs du Québec (F.T.Q.) (hereinafter “Fonds de solidarité FTQ”), the government has supported its growth by granting a non-refundable tax credit to individuals who become shareholders in the Fonds de solidarité FTQ.

Since the financing of this labour-sponsored fund is made easier by granting a tax benefit, an investment requirement has been incorporated in its statute of incorporation³⁸ to ensure, in particular, that the funds collected are used as a financing tool contributing to the development of Québec entities.

According to this requirement, for a particular fiscal year, the eligible investments of the Fonds de solidarité FTQ must represent, on average, at least 64% of its average net assets for the preceding fiscal year.³⁹

Over the years, various changes have been made to its statute of incorporation to reflect the importance of the role the Fonds de solidarité FTQ plays in Québec's economy. A number of these changes were aimed at ensuring that the list of eligible investments of this labour-sponsored fund is better adapted to the capital needs of Québec enterprises.

Briefly, for the purposes of the investment requirement, eligible investments are investments that do not include any security or hypothec and that consist, among other things, in investments in eligible enterprises, investments in major projects that have 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.

Moreover, some of these eligible investments are subject to an investment ceiling. More specifically, to be eligible for the investment requirement, the aggregate of the strategic investments that the Fonds de solidarité FTQ can make may not exceed 17.5% of its net assets at the end of the preceding fiscal year and the aggregate of the investments in major projects that have a structuring effect on Québec's economy may not exceed 10%.⁴⁰

³⁸ *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)* (CQLR, chapter F-3.2.1).

³⁹ This percentage applies for the fiscal year ending May 31, 2019. It will increase to 65% for fiscal years beginning after May 31, 2019.

⁴⁰ *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, s. 15, 12th par., subpars. 2 and 3.

☐ **Merger of investment ceilings**

To make reinvestment in enterprises easier and simplify management of the investment requirement, the Fonds de solidarité FTQ's statute of incorporation will be amended to merge the ceiling on strategic investments and the ceiling on investments in major projects that have a structuring effect on Québec's economy.

Consequently, for the purposes of the investment requirement, the aggregate of the strategic investments and the investments in major projects that have a structuring effect on Québec's economy that the Fonds de solidarité FTQ will be authorized to make may not exceed 27.5% of its net assets at the end of the preceding fiscal year.

This amendment will apply to any fiscal year of the Fonds de solidarité FTQ beginning after May 31, 2018.

4. FEDERAL LEGISLATION AND REGULATIONS

4.1 Harmonization with certain measures announced in the *Fall Economic Statement 2018* of the Department of Finance Canada

On November 21, 2018, the Department of Finance Canada presented the *Fall Economic Statement 2018*.⁴¹ At that time, various amendments to the federal tax legislation and regulations were proposed.

Québec's position with respect to a part of these amendments was announced in *Information Bulletin 2018-9*.⁴² It was also announced that the Ministère des Finances would make known at a later date its position on the other amendments to federal tax legislation and regulations announced in the presentation of the *Fall Economic Statement 2018*. The present document provides an occasion to do so.

These amendments concern the accelerated deduction granted in respect of Canadian development expenses and Canadian oil and gas property expenses, for the year in which the expenses are incurred, as well as the extension of the Mineral Exploration Tax Credit for five years.

Québec's tax legislation is generally harmonized with federal tax legislation as regards the definition of "Canadian development expense" and "Canadian oil and gas property expense." However, although the Québec tax system is harmonized with the federal tax system as regards the rate of the deduction applicable to cumulative Canadian oil and gas property expenses, it is only partially harmonized as regards the rate of the deduction applicable to cumulative Canadian development expenses.

Briefly, in the Québec tax system, a development corporation carrying on a mining business can deduct, in calculating its income for a taxation year, the total amount of its cumulative Canadian development expenses at the end of the year and a development corporation carrying on an oil business can deduct, in calculating its income for a taxation year, the total amount of its cumulative Canadian development expenses incurred in Québec at the end of the year. In the federal tax system, such a corporation can deduct, in calculating its income for a taxation year, up to 30% of its cumulative Canadian development expenses at the end of the year (before the enhancement announced in fall 2018).

In all other cases, the rate of the deduction applicable to cumulative Canadian development expenses is, for both the Québec and federal tax systems, 30% (before the enhancement announced in fall 2018).

As for cumulative Canadian oil and gas property expenses, the rate of the deduction applicable for the Québec tax system is harmonized with the rate applicable for the federal tax system, that is, 10% (before the enhancement announced in fall 2018).

⁴¹ DEPARTMENT OF FINANCE CANADA, *Fall Economic Statement 2018 – Investing in Middle Class Jobs*, November 21, 2018.

⁴² MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2018-9*, December 3, 2018, pp. 8-9.

Also, except where it allows a corporation to deduct the total amount of its cumulative Canadian development expenses or its cumulative Canadian development expenses incurred in Québec, the Québec tax legislation will be amended, with adaptations on the basis of its general principles, to incorporate the proposed amendments to the *Income Tax Act* allowing a taxpayer to deduct, in calculating the taxpayer's income, for the year in which the expenses are incurred, up to one-and-a-half times the amount the taxpayer would otherwise have been able to deduct in respect of the taxpayer's Canadian development expenses and Canadian oil and gas property expenses,⁴³ where the taxation year ends before 2024, with a gradual reduction thereafter.

However, the amendments to the Québec tax legislation will be adopted only following assent to any federal statute implementing the legislative proposals retained, which will take into account any technical amendments that may be made prior to assent. For greater clarity, these amendments will be applicable on the same dates as those retained for application of the amendments to the federal tax legislation with which they are harmonized.

Moreover, the measure respecting the extension of the Mineral Exploration Tax Credit will not be retained because the Québec tax system does not contain any analogous provisions.⁴⁴

⁴³ Notice of Ways and Means Motion to Amend the *Income Tax Act* and the *Income Tax Regulations* tabled in the House of Commons on November 21, 2018, sections 1 and 2 and section 11 in connection with the amendments retained.

⁴⁴ See note 41, p. 62.

Section B

PLAN TO ENSURE TAX FAIRNESS

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1. CONTINUATION OF THE ACTION PLAN

The Tax Fairness Action Plan is the Québec government's strategy for strengthening the public's confidence in the fairness of tax laws and regulations and ensuring that public services are fully funded.

It is an evolving plan and will be modified as challenges arise from, among other things, the use of tax havens, growth of information technologies and emerging collaborative practices.

The government is therefore reiterating its intention to continue the Tax Fairness Action Plan. Budget 2019-2020 announces new measures to foster tax fairness and protect the integrity of the tax system.

2. NEW INITIATIVES TO ENSURE TAX FAIRNESS

To counter tax evasion and abusive tax avoidance, the government will be implementing measures to:

- strengthen the mandatory disclosure mechanism and improve the rules governing the use of nominees;
- block access to public contracts for businesses and promoters that have used abusive tax avoidance strategies;
- foster tax fairness in the sharing economy;
- extend the *Attestation de Revenu Québec* to public building cleaning services;
- increase tax compliance in respect of transactions on financial markets.

2.1 Strengthening the mandatory disclosure mechanism and improving the rules governing the use of nominees

A mandatory disclosure mechanism has been in place since 2009 so that certain transactions resulting, directly or indirectly, in a tax benefit or that have an appreciable impact on a taxpayers' income are reported to Revenu Québec.

Currently, the disclosure mechanism primarily applies to any transaction involving conditional remuneration or contractual coverage.

Furthermore, the government is concerned about the fact that, in some instances, the use of a nominee contract¹ could breach the integrity of the tax system.

The government intends to amend the tax legislation so as to strengthen the mandatory disclosure mechanism and improve the rules governing the use of nominee contracts. The amendments will be announced at a later date.

¹ A nominee contract is a mandate under which a person nominates another person to enter into a contract with a third party on his or her behalf without informing the third party that the nominee is acting on his or her behalf.

2.2 Blocking access to public contracts for businesses and promoters that have used abusive tax avoidance strategies

In accordance with the Tax Fairness Action Plan, legislative amendments will be made so that businesses on which a penalty has been imposed further to a final assessment for abusive tax avoidance,² as well as the promoters of the transactions in question on whom a penalty has been imposed on the same basis, are listed in the register of enterprises ineligible for public contracts (commonly known as the “RENA”).

The penalty will be considered in deciding whether the Autorité des marchés publics will authorize a business to enter into contracts with a public body or not.

2.3 Fostering tax fairness in the sharing economy

The rapid growth of the sharing economy as a result of the creation of digital accommodation platforms in recent years has impacted and will continue to impact the tourist accommodation industry.

For greater fairness between the various stakeholders in the sector, the government will make it mandatory for individuals who operate a digital accommodation platform to register for the tax on lodging, collect the tax and remit it to Revenu Québec, the same as operators of a sleeping-accommodation establishment located in Québec tourism regions where the tax applies.

— Ultimately, this new requirement is expected to generate an estimated \$12 million more in revenues per year.

TABLE B.1

Financial impact of the requirement for individuals who operate a digital accommodation platform to collect the tax on lodging (millions of dollars)

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total
Fostering tax fairness in the sharing economy	—	5.0	7.0	9.0	12.0	33.0

² Means an assessment that is not under objection or appeal before the courts and in respect of which the deadline for filing an objection or appeal has expired, as well as an assessment in respect of which a final court judgment has been rendered.

2.4 Extending the *Attestation de Revenu Québec* to public-building cleaning services

Since 2010, any business that wishes to enter into any of the following types of public contracts must have an *Attestation de Revenu Québec*:

- a supply contract or a service contract in the amount of \$25 000 or more with a public body or government corporation;
- a construction contract in the amount of \$25 000 or more with a public body, government corporation, municipality or municipal body.

In addition, in order to counter certain tax evasion schemes in the construction and employment agency sectors, the government extended the attestation to these sectors as of March 1, 2016.

In Québec, businesses that do cleaning work in public buildings³ must comply with the decrees setting out the working conditions in the given sector. Representatives of such businesses called on Revenu Québec to find ways to combat problems encountered in this sector of activity, including unreported work.

Solutions to these problems were identified in consultation with stakeholders from the sector, including implementation of the *Attestation de Revenu Québec* in respect of persons registered for the QST, except for building managers.

Extending the *Attestation de Revenu Québec* to public-building cleaning contracts in the amount of \$10 000 or more will, in particular:

- ensure compliance with the working conditions set out in government decrees;
- fight tax evasion and unreported work in this sector.

Legislative amendments will be made to that end. The administrative terms and conditions as well as the information to be provided to Revenu Québec will be specified at a later date.

³ Public buildings include government and municipal buildings, schools, private and public colleges and universities, clinics, hospitals, office buildings, shopping centres, restaurants, movie theaters, etc.

2.5 Increasing tax compliance in respect of transactions on financial markets

Whereas hundreds of thousands of Québec taxpayers are active investors, there is inconsistency in the information security dealers and brokers provide to investors. This causes problems with tax compliance in respect of transactions on financial markets.

Stakeholders from the sector were consulted in order to find solutions that would make it easier for taxpayers to comply with their tax obligations and provide administrative relief for security dealers and brokers.

Therefore, Revenu Québec will establish, in cooperation with the sector, a new tax slip that will make it easier to report financial market transactions.

3. MEASURES TO COMBAT FRAUD, MONEY LAUNDERING AND THE FUNDING OF CRIMINAL ACTIVITIES

To more effectively combat fraud, money laundering and the funding of criminal activities, as well as tax evasion and abusive tax avoidance, the government will put measures in place to:

- strengthen corporate transparency;
- more effectively combat fraud against the government;
- entrust administration of the *Money-Services Businesses Act* to Revenu Québec.

Within five years, \$14 million will be allocated to implement these measures.

TABLE B.2

Financial impact of the measures to combat fraud, money laundering and the funding of criminal activities (millions of dollars)

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total
Strengthening corporate transparency ⁽¹⁾	-0.5	-2.0	-1.5	-1.5	-1.5	-7.0
Combating fraud against the government more effectively ⁽²⁾	-1.0	-1.5	-1.5	-1.5	-1.5	-7.0
Entrusting administration of the <i>Money-Services Businesses Act</i> to Revenu Québec	—	—	—	—	—	—
TOTAL	-1.5	-3.5	-3.0	-3.0	-3.0	-14.0

(1) Appropriations will be granted to the Ministère du Travail, de l'Emploi et de la Solidarité sociale. The amounts for 2019-2020 will be drawn from the Contingency Fund.

(2) Appropriations will be granted to the Ministère des Finances du Québec for the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government.

3.1 Strengthening corporate transparency

Over the past few years, a number of leaked documents have shed light on financial schemes used not only to avoid paying tax, but also to facilitate money laundering, circumvent international sanctions or fund criminal activities. Many of these schemes used shell companies to hide the true identity of the beneficial owners of these entities.

To combat the use of these schemes, a number of countries have taken initiatives to improve information on the beneficial owners of shell companies.

The government is using Budget 2019-2020 to strengthen corporate transparency through measures to:

- expand the list of Québec organizations with investigative powers that can use the search tool for querying data in the Québec enterprise register (ORDRE) and allow them to enter into a disclosure agreement;
- scale up the inspection, oversight and investigation functions of the Registraire des entreprises du Québec (REQ) with a view to more reliable data;
- start using the North American Industry Classification System (NAICS) instead of the system of classification by economic activity code (EAC) currently used by the REQ;
- relax the regulatory and procedural requirements;
- amend the *Act respecting the legal publicity of enterprises* to empower the REQ to require the supply of information or documents needed to verify the legality and accuracy of the declarations filed in the register, thereby helping ensure that the data contained in the enterprise register are more reliable;
- increase promotion of the Québec enterprise register through presentations and training so that enterprises, government departments and bodies and the general public are more familiar with the register and how to access it.

The sum of \$7 million will be allocated to the Ministère du Travail, de l'Emploi et de la Solidarité sociale by 2023-2024 to enable it to put these measures in place.

In the context of international efforts to increase corporate transparency, especially by identifying the beneficial owners, analyses are being conducted with a view to adopting global best practices in Québec.

The work conducted thus far has shown that certain measures intended to improve transparency can raise issues with regard to the protection of personal information and the administrative burden on businesses.

Consultations on the following potential initiatives will begin in 2019:

- make it possible to search an enterprise in the register using the name and address of a natural person;
- require all enterprises to obtain information on the beneficial owners and disclose such information to the REQ.

Improve the reporting of statistics on cross-border corporate transactions

The Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting Project (OECD/G20 BEPS Project) comprises 15 actions that governments can take to address base erosion and profit sharing.

In 2015, the OECD released its final report¹ on Action 11, "Measuring and monitoring BEPS," which includes the following recommendation:

Governments should improve the public reporting of business tax statistics, particularly for multinational enterprises.

The government is following this recommendation and continuing its efforts to gather information in regards to the BEPS Project. Additional data on the international activities of companies with operations in Québec will be published in *Statistiques fiscales des sociétés* (Corporate Tax Statistics).

– The data will be updated on a regular basis to incorporate new information as it becomes available.

In addition, the government will begin developing indicators that are in line with the objectives of the BEPS Project. The indicators will enable measuring and monitoring of base erosion and profit sharing in Québec.

¹ *Measuring and Monitoring BEPS, Action 11 – 2015 Final Report, OECD/G20 Base Erosion and Profit Sharing Project.*

3.2 Combatting fraud against the government more effectively

The extent and complexity of frauds that government departments and bodies can face call for effective control measures. The actions taken to effectively combat this type of crime therefore need to be strengthened.

To address the issue in a more meaningful manner, the Québec government will create a special unit within the Sûreté du Québec tasked with investigating fraud against the government in collaboration with the departments and bodies concerned. Among other functions, the unit will be responsible for:

- coordinating criminal and penal investigations;
- supporting the training of investigators within the departments and bodies;
- determining, at the end of investigations, the fraud risks government departments and bodies are exposed to and, if necessary, strengthen potential control measures;
- providing the necessary technological support to conduct investigations.

The creation of a special unit to coordinate investigations into fraud against the government will enable departments and bodies to better prevent the risks and more effectively combat incidents of fraud by leveraging the Sûreté du Québec's expertise in penal and criminal investigations.

Funding in the amount of \$1 million is being allocated in 2019-2020 to step up action to combat fraud against the government.

3.3 Entrusting administration of the *Money-Services Businesses Act* to Revenu Québec

The Québec government passed the *Money-Services Businesses Act* in 2010 to help combat tax fraud and money laundering schemes involving money-services businesses⁴ more effectively.

Administration of the Act was entrusted to the Autorité des marchés financiers because of its expertise in registration system management. However, a mandate of that type is not consistent with the body's primary mission, which is to regulate Québec's financial sector and provide assistance to consumers of financial products and services.

Since Revenu Québec plays a front-line role in fighting tax fraud and money laundering, it has the required resources and expertise, and therefore would be better placed, to administer the Act.

In fact, one of the recommendations made in the *Report on the Application of the Money-Services Businesses Act*,⁵ tabled in March 2017, was to entrust Revenu Québec with the administration of the *Money-Services Business Act*.

Acting on that recommendation, the government has decided that the Act will henceforth be administered by Revenu Québec. Legislative amendments will be proposed for that purpose.

⁴ The following services are considered to be money services: currency exchange, funds transfer, the issue or redemption of traveller's cheques, money orders or bank drafts, cheque cashing and the operation of automatic teller machines.

⁵ MINISTÈRE DES FINANCES DU QUÉBEC, *Report on the Application of the Money-Services Businesses Act*, March 2017, 19 p.

4. FOLLOW-UP OF ACTIONS CARRIED OUT

In 2019-2020, the government will continue the efforts to fight tax evasion and abusive tax avoidance initiated under:

- the Tax Fairness Action Plan;
- concerted actions to fight tax evasion.

4.1 Follow-up of the Tax Fairness Action Plan

The goal of the Tax Fairness Action Plan, released in fall 2017, was to act on the recommendations of the National Assembly's Committee on Public Finance.

The measures announced in the plan address two priority issues identified by the Committee on Public Finance: the use of tax havens and e-commerce.

The government is continuing the initiatives undertaken through the Tax Fairness Action Plan, including by:

- making Revenu Québec part of a joint strategic committee with the Canada Revenue Agency;
- creating a transfer pricing exchange centre;
- requiring suppliers outside Québec to collect QST.

Strategic joint committee with the Canada Revenue Agency

The Canada Revenue Agency and Revenu Québec stepped up their cooperative efforts with the primary aim of exchanging new types of information relating to international activities carried out by individuals or businesses operating in Québec.

- For that purpose, a strategic committee uniting the two agencies was set up. Various expert groups were formed to tackle specific issues, such as information exchange and electronic fund transfer, virtual currencies and blockchains, and collection.

As well, the Canada Revenue Agency will ask a number of foreign jurisdictions for authorization to use information from the common reporting standard for the automatic exchange of financial account information and country-by-country reports of multinational entities for the collection of income tax by the provinces.

- Such authorization would give Revenu Québec access to that information when it is provided by the jurisdiction.

❑ **Transfer pricing exchange centre**

In January 2019, a joint team composed of employees from the Canada Revenue Agency and Revenu Québec was struck for the purpose of optimizing the two bodies' efforts in the area of transfer pricing audits.

The Canada Revenue Agency will provide skills training in transfer pricing and other issues related to international tax matters for the Revenu Québec employees. The experience thus acquired will allow Revenu Québec to handle transfer pricing files and thereby ensure broader coverage of the files of Québec taxpayers.

— Transfer prices are the prices at which enterprises in the same corporate group sell goods or services to each other. Some large businesses artificially inflate transfer prices in order to shift profits to jurisdictions with lower tax rates.

❑ **Collection of Québec sales tax by suppliers outside Québec**

In accordance with the Tax Fairness Action Plan, foreign suppliers of incorporeal property and services are required, as of January 1, 2019, to register for the QST, collect the tax and remit it to Revenu Québec.

— To date, more than 90 suppliers outside Québec are registered for and collect the QST.

Canadian suppliers located outside Québec have until September 1, 2019 to register for the QST and collect the tax on supplies sold to Québec consumers.

A pilot project has been under way at the Canada Post sorting centre in Montréal since October 2018 with the aim of improving collection of taxes on corporeal property at the borders.

4.2 Concerted actions to fight tax evasion

Year after year, the government implements initiatives to fight tax evasion and unreported work and adjusts its practices in sectors of the economy where there is a higher risk of non-compliance. These initiatives promote integrity in the tax system and healthy competition.

In 2018-2019, the government funded the following concerted actions:

- the fight against the illicit trade in tobacco products;
- the fight against unreported work in the construction sector;
- the fight against the illicit trade in alcoholic beverages;
- the fight against economic and financial crime;
- the fight against organized networks of unreported work;
- the fight against the illicit cannabis trade.

The fight against the illicit trade in tobacco products (ACCES tobacco)

The mission of the ACCES⁶ tobacco committee⁷ is to dismantle smuggling networks, recover the tax losses linked to the illicit trade in tobacco and thus increase revenue from the specific tax on tobacco products.

The actions carried out by the committee target all smuggling activities, from the supply of raw materials to the sale of tobacco products to consumers. Below are its main actions:

- increase police interventions in the fight against smuggling networks, including neighbourhood networks;
- implement police surveillance of the main contraband tobacco supply and transportation channels;
- adapt interventions to the schemes used by smugglers;
- improve information sharing between the different partners.

⁶ Actions concertées pour contrer les économies souterraines (concerted actions to counter the underground economy).

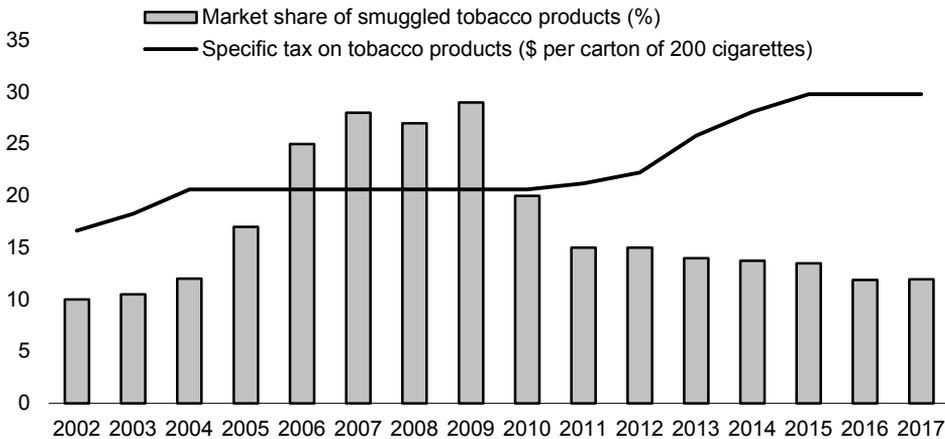
⁷ ACCES tobacco brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, the other Québec police forces represented by the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Directeur des poursuites criminelles et pénales, the Ministère de la Santé et des Services sociaux, the Ministère des Finances du Québec, as well as the Royal Canadian Mounted Police, the Canada Revenue Agency and the Canada Border Services Agency.

Thanks to the actions taken by ACCES tobacco's partners, the market share of smuggled tobacco products fell from almost 30% in 2009 to 12% in 2017, even though the specific tax on tobacco products was raised during that period.

CHART B.1

Change in market share of smuggled tobacco products and in the rate of the specific tax on tobacco products

(per cent and dollars per carton of 200 cigarettes)



Sources: Statistics Canada, Sûreté du Québec and Ministère des Finances du Québec.

In 2017-2018, the actions of the ACCES tobacco committee yielded a return for the government of \$207.6 million.

Examples of interventions by ACCES tobacco

Launched in summer 2016, the Sûreté du Québec's OLIOS project targeted a criminal organization involved in importing tobacco from the United States. The investigation revealed at least 57 suspicious imports in 19 months. The project was carried out in partnership with the Canadian and U.S. border agencies. The 18 searches conducted led to the seizure of more than 13 000 kg of tobacco and eight vehicles.

The Service de police de la Ville de Montréal conducted a similar project (MÉDIAN) that targeted an organization that was importing contraband tobacco from the United States. Police investigators discovered that a portion of the illegally imported tobacco was being shipped by the organization targeted by the OLIOS project. The organization had ordered 31 shipments, weighing roughly 14 000 kg each, for a total of over 430 tonnes of tobacco.

The estimated value of the fraud committed in these two cases is over \$170 million.

Sources: Ministère de la Sécurité publique, Sûreté du Québec and Service de police de la Ville de Montréal.

❑ **The fight against unreported work in the construction sector (ACCES construction)**

The construction sector is an important part of Québec's economy. However, it is also marked by significant tax evasion problems, including unreported work and non-compliance with other legal obligations.

The ACCES construction committee⁸ comprises the various government departments and bodies concerned who share information and establish concerted intervention strategies.

In 2017-2018, the actions of the ACCES construction committee yielded a return for the government of \$108.3 million.

Example of an intervention by ACCES construction

Following an investigation by the Régie du bâtiment du Québec (RBQ), 76 statements of offence were issued to six businesses that sell heat pumps and air conditioning units. The minimum fines payable by the businesses total over \$2.8 million.

The evidence gathering during the investigation, which took more than a year, revealed illegal practices on the part of the offenders. Among other things, the businesses installed systems without a licence or without the proper licence, or subcontracted parties who were not licensed.

Every year, the RBQ conducts numerous investigations of this kind with the goal of ensuring the probity of construction contractors and protecting the public. A number of interventions are carried out as part of the ACCES construction committee's work, in cooperation with other bodies.

Source: Régie du bâtiment du Québec.

⁸ ACCES construction brings together the Commission de la construction du Québec, the Régie du bâtiment du Québec, the Commission des normes, de l'équité, de la santé et de la sécurité du travail, Revenu Québec, the Ministère du Travail, de l'Emploi et de la Solidarité sociale, the Directeur des poursuites criminelles et pénales and the Ministère des Finances du Québec.

❑ **The fight against the illicit trade in alcoholic beverages (ACCES alcohol)**

The ACCES alcohol committee⁹ allows for concerted action against the illicit trade and illegal procurement of alcoholic beverages, which endangers public safety and leads to tax losses for the government.

ACCES alcohol enables police forces to carry out the following actions across Québec:

- inspections of establishments holding an alcohol permit for consumption on the premises in order to detect offences involving the trade in alcoholic beverages;
- investigations to detect clandestine drinking establishments and dismantle illegal networks for importing, manufacturing and distributing alcoholic beverages and illegal gaming houses.

Partner initiatives encourage sound and fair competition in the alcoholic beverage industry through interventions at every level of the supply chain.

In 2017-2018, the actions of the ACCES alcohol committee yielded a return for the government of \$83.4 million.

Example of an intervention by ACCES alcohol

Two investigations conducted by the Service de police de la Ville de Montréal put an end to a scheme by an event-planning business that procured wine illegally and then sold it to individuals and during events. In addition to finding that products that might pose a risk to public health were being distributed, the investigation revealed that the taxes and duties payable were not being paid as prescribed by law.

The two investigations led to seizure of over 20 000 bottles of alcohol worth over \$500 000 and 42 charges against three businesses and seven individuals.

Sources: Ministère de la Sécurité publique and Service de police de la Ville de Montréal.

⁹ ACCES alcohol brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, the other Québec police forces represented by the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, the Directeur des poursuites criminelles et pénales, Revenu Québec, the Régie des alcools, des courses et des jeux, the Société des alcools du Québec and the Ministère des Finances du Québec.

❑ The fight against economic and financial crime (ACCEF)

The ACCEF¹⁰ committee was set up to detect and repress economic and financial crime and foster better circulation of information between the main partners concerned.

The extent and complexity of economic and financial crimes have intensified in recent years. The expertise of all ACCEF partners is critical to countering such crimes, as they require in-depth investigations.

The ACCEF committee has three components:

- the fight against tax crimes, which helps put an end to complex tax evasion and money laundering schemes;
- the fight against crimes committed on financial markets, which focuses on schemes whose victims are usually investors;
- the fight against money laundering, which targets schemes to conceal the source of illegally acquired money.

In 2017-2018, the actions of the ACCEF committee yielded a return for the government of \$21.7 million.

Example of an intervention by ACCEF

The OPTIQUE project, headed by the Division des enquêtes sur la criminalité financière organisée of the Sûreté du Québec, was aimed at dismantling a criminal network that was producing high-quality fake government-issued IDs to carry out fraudulent transactions with government bodies and banking institutions in Québec.

Using thousands of fake IDs, members of the network opened bank accounts to carry out fraudulent transactions.

The total amount of money defrauded by the network was estimated at several million dollars. About \$425 000 in assets were frozen and 14 people were arrested.

Numerous partners from the government and banking sector contributed to the investigation.

Sources: Ministère de la Sécurité publique and Sûreté du Québec.

¹⁰ Actions concertées contre les crimes économiques et financiers (concerted action against economic and financial crime). The ACCEF committee brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, the Ministère de la Sécurité publique, Revenu Québec, the Directeur des poursuites criminelles et pénales, the Autorité des marchés financiers and the Ministère des Finances du Québec.

❑ The fight against organized networks of unreported work

Since 2011, the Ministère du Travail, de l'Emploi et de la Solidarité sociale and its partners, namely, the Commission des normes, de l'équité, de la santé et de la sécurité du travail, the Sûreté du Québec and Revenu Québec, have worked together to combat criminal networks linked to employment agencies.

- These networks exploit vulnerable workers, often newcomers, generally by paying them in cash, thereby depriving them of the protections and employee benefits provided for in Québec.
- Fraudulent employment agencies also neglect to report their income to the different governments, which generates significant tax losses for the Québec government.

The concerted actions of the partners help identify these networks, recover sums owed to the government, take deterrent action and support the entry into the legal labour market of people who have performed unreported work.

In 2017-2018, actions to counter organized networks of unreported work yielded a return for the government of \$14.5 million.

Example of an intervention as part of the fight against organized networks of unreported work

The OXY operation, led by investigators from the Ministère du Travail, de l'Emploi et de la Solidarité sociale, identified fraud being committed by an illegal network of employment agencies.

The network consisted of around 15 businesses, including three employment agencies that were directly involved in crime committed against the Ministère.

In addition, 1 500 people performing unreported work were identified, nearly 800 of whom were receiving last resort financial assistance. Caseworkers will meet with the people to encourage their integration into the legal labour market.

This fraud scheme involved the use of nominees, unreported work, payments in cash and work performed using false IDs, leading to an estimated loss of \$2 million to the Québec government.

Source: Ministère du Travail, de l'Emploi et de la Solidarité sociale.

❑ **Fight against the illicit cannabis trade (ACCES cannabis)**

Owing to the legalization of cannabis, the government created the ACCES cannabis committee¹¹ to combat the illicit cannabis trade and thereby:

- reduce access to cannabis for young people in order to protect them from the risks of using this substance;
- direct current adult consumers to a safer, legal market.

The ACCES cannabis committee is modeled after ACCES tobacco, a committee that has proved its worth and is considered a Canadian leader in combatting smuggling.

- The actions of ACCES cannabis partners help combat cannabis smuggling across Québec at every stage of the supply chain, from illegal production to neighbourhood networks.

The main mandate of ACCES cannabis partners is to:

- track the illegal cannabis trade in Québec;
- know the schemes used by smugglers;
- counter the activities of smuggling networks, particularly by conducting investigations.

The funding provided enables more than 100 resources to concentrate on combatting the illicit trade in cannabis and the entire police force to conduct investigations in the matter.

Example of an intervention as part of the fight against the illicit cannabis trade

The Portillon project was set up to stop the activities of illegal cannabis dispensaries operating in the Saint-Jérôme and Trois-Rivières areas.

The investigation led to nine searches and seven arrests, resulting in the seizure of, among other things, several kilograms of cannabis and dozens of marijuana plants and a greenhouse under construction.

Sources: Ministère de la Sécurité publique and Sûreté du Québec.

¹¹ ACCES cannabis brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, the Service de police de la Ville de Québec, the other Québec police forces represented by the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique and the Ministère des Finances du Québec.

❑ Results of concerted actions in the fight against tax evasion

The concerted actions to fight tax evasion are primarily funded using the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government (the provision).

In 2017-2018, the actions funded by the provision yielded a return of \$529.3 million.

— The return per dollar invested in projects funded by the provision was \$10.88.

TABLE B.3

Total return on concerted actions funded by the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government

(millions of dollars, unless otherwise indicated)

	2017-2018
ACCES tobacco	207.6
ACCES construction	108.3
ACCES alcohol	83.4
ACCEF	21.7
Fight against organized networks of unreported work	14.5
Special Penal Case Division ⁽¹⁾	93.8
TOTAL	529.3
Funding granted to partners for concerted actions	48.6
RETURN PER DOLLAR INVESTED	10.88

(1) As of 2018-2019, the Special Penal Case Division is no longer funded by the provision, but rather by the appropriations granted to the Ministère de la Justice.

□ Budget envelope

In 2018-2019, the Ministère des Finances du Québec allocated \$58.8 million to the provision for the various departments and bodies involved in the fight against tax evasion.

For 2019-2020, the budget envelope of the provision will total \$49.1 million. The decrease is primarily attributable to the fact that, as of 2019-2020, the ACCES cannabis committee will be funded through the Cannabis Sales Revenue Fund.

TABLE B.4

Funding from the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government (millions of dollars)

	2018-2019	2019-2020 ⁽¹⁾
ACCES tobacco	14.1	—
ACCES construction	8.1	—
ACCES alcohol	6.0	—
ACCEF	14.7	—
Fight against organized networks of unreported work	1.8	—
ACCES cannabis ⁽²⁾	10.7	—
Other initiatives	3.4	—
TOTAL	58.8	49.1

(1) The breakdown of funding by project for 2019-2020 is not available, as the Ministère des Finances du Québec is currently analyzing funding requests by government departments and bodies.

(2) As of 2019-2020, ACCES cannabis will be funded through the Cannabis Sales Revenue Fund.

Section C

REPORT ON THE APPLICATION OF THE LEGISLATION RESPECTING A BALANCED BUDGET AND THE GENERATIONS FUND

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1. THE *BALANCED BUDGET ACT*

Pursuant to the *Balanced Budget Act*, the Minister of Finance must report to the National Assembly, in the budget speech, on the achievement of the objectives of the Act and any variance recorded.

The purpose of the *Balanced Budget Act* is to oblige the government to maintain a balanced budget and, to that end, to table balanced budget estimates. In general, the Act specifies the calculation of the budgetary balance, establishes a stabilization reserve to facilitate the government's multi-year budget planning and sets out the applicable rules in the case of a surplus or an overrun.

— The requirements of the *Balanced Budget Act* are set out in the Appendix.

1.1 **Budgetary balance within the meaning of the *Balanced Budget Act***

Under the *Balanced Budget Act*, the objectives of the Act are achieved if the budgetary balance, calculated in accordance with the Act, is zero or positive.¹

— The budgetary balance corresponds essentially to the surplus or the deficit presented in the Public Accounts (book balance) reduced by the amount of revenues dedicated to the Generations Fund and adjusted to take certain accounting changes into consideration.

The Act allows the stabilization reserve to be taken into account in order to assess the achievement of a balanced budget. In a situation where the calculated budgetary balance is a deficit, the reserve can be used to balance the budget without requiring additional actions, such as spending reductions or revenue increases. The budgetary balance thus obtained corresponds to the budgetary balance within the meaning of the Act after taking into account the stabilization reserve.

¹ The budgetary data for 2018-2019 and subsequent years presented in this section are forecasts.

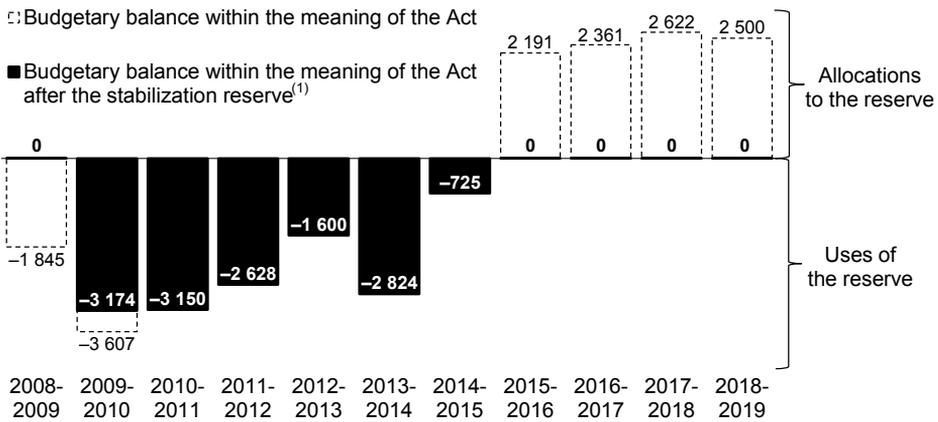
Budgetary balance within the meaning of the Act was maintained for fiscal 2008-2009. From 2009-2010 to 2014-2015, the budgetary balance was a deficit, as allowed under the Act.

From 2015-2016 to 2017-2018, a balanced budget was achieved. Recorded surpluses of \$2.2 billion, \$2.4 billion and \$2.6 billion were entirely allocated to the stabilization reserve, bringing the budgetary balance calculated after taking the reserve into account to zero.

As part of Budget 2019-2020, the government forecasts a surplus of \$2.5 billion for 2018-2019, which will be allocated to the stabilization reserve.

CHART C.1

Budgetary balance, 2008-2009 to 2018-2019
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act* that takes into account allocations to the stabilization reserve and uses of it in order to maintain a balanced budget. From 2010-2011 to 2014-2015, there were no operations in the stabilization reserve.

TABLE C.1

Budgetary balance within the meaning of the *Balanced Budget Act*
(millions of dollars)

Fiscal year	Surplus (deficit) reported in the Public Accounts ⁽¹⁾	Generations Fund	Accounting changes and other	Budgetary balance within the meaning of the Act	Annual surplus	Stabilization reserve		Budgetary balance within the meaning of the Act after reserve ⁽²⁾
						Allocations ⁽³⁾	Uses	
2008-2009	-1 258	-587	—	-1 845	—	-109 ⁽³⁾	1 845	—
2009-2010	-2 940	-725	58 ⁽⁴⁾	-3 607	—	—	433	-3 174 ⁽⁵⁾
2010-2011	-2 390	-760	—	-3 150	—	—	—	-3 150 ⁽⁵⁾
2011-2012	-1 788	-840	—	-2 628	—	—	—	-2 628 ⁽⁶⁾
2012-2013	-2 515	-961	1 876 ⁽⁷⁾	-1 600	—	—	—	-1 600 ⁽⁸⁾
2013-2014	-1 703	-1 121	—	-2 824	—	—	—	-2 824 ⁽⁸⁾
2014-2015	136	-1 279	418 ⁽⁴⁾	-725	—	—	—	-725 ⁽⁸⁾
2015-2016	3 644	-1 453	—	2 191	2 191	-2 191	—	—
2016-2017	4 362	-2 001	—	2 361	2 361	-2 361	—	—
2017-2018	4 915	-2 293	—	2 622	2 622	-2 622	—	—
2018-2019	5 606	-3 106	—	2 500	2 500	-2 500	—	—

(1) For 2008-2009 to 2017-2018, the amounts correspond to those established in the government's annual consolidated financial statements, without taking into account the adjustments made in subsequent years for the fiscal year concerned.

(2) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account the allocations to the stabilization reserve and uses of it in order to maintain a balanced budget.

(3) In accordance with section 32 of the Act (S.Q. 2009, chapter 38), the sum of \$109 million, corresponding to the difference between the recorded surplus and the anticipated surplus for 2006-2007, was allocated to the stabilization reserve in 2008-2009.

(4) The *Balanced Budget Act* stipulates that the budgetary balance must be adjusted to take into account certain accounting changes resulting in particular from changes made to the accounting policies of the government or any of its enterprises so as to bring them into compliance with a new standard of the organization Chartered Professional Accountants Canada (CPA Canada).

(5) In accordance with the *Balanced Budget Act*, the obligation to achieve a balanced budget was suspended in 2009-2010 and in 2010-2011.

(6) For 2011-2012, the budgetary deficit of \$2.6 billion represents an improvement of \$1.2 billion compared to the budgetary deficit target of \$3.8 billion set in the March 2011 Budget pursuant to the *Balanced Budget Act*.

(7) The result of \$1.9 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant is excluded from the calculation of the budgetary balance for 2012-2013, in accordance with the Act.

(8) The budgetary deficits of \$1.6 billion, \$2.8 billion and \$0.7 billion recorded for 2012-2013, 2013-2014 and 2014-2015, respectively, are allowed pursuant to the *Balanced Budget Act*.

1.2 Stabilization reserve

Under the *Balanced Budget Act*, a recorded surplus, that is, a budgetary balance that is greater than zero, must be allocated to the stabilization reserve.

This reserve is a budget tool created to facilitate multi-year planning of the government's financial framework. It must be used first and foremost to keep the budget balanced and, subsidiarily, it may be used to reduce the debt through deposits in the Generations Fund.

The balance of the stabilization reserve is adjusted on the basis of recorded surpluses allocated to the reserve or sums used from the reserve for each fiscal year.

Taking into account the projected \$2.5 billion surplus for fiscal year 2018-2019, which will be allocated to the stabilization reserve, the balance of the reserve will be \$9.7 billion as at March 31, 2019.

For fiscal years 2019-2020 to 2023-2024, the government plans to maintain a balanced budget without using to the stabilization reserve.

TABLE C.2

Operations of the stabilization reserve

(millions of dollars)

Fiscal year	Balance, beginning of year	Allocations	Uses		Balance, end of year
			Balanced budget	Generations Fund	
2015-2016	—	2 191	—	—	2 191
2016-2017	2 191	2 361	—	—	4 552
2017-2018	4 552	2 622	—	—	7 174
2018-2019	7 174	2 500	—	—	9 674

2. THE ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND

2.1 Debt reduction objectives

The following debt reduction objectives are set forth in the *Act to reduce the debt and establish the Generations Fund* for fiscal 2025-2026:

- the gross debt must not exceed 45% of GDP;
- the debt representing accumulated deficits must not exceed 17% of GDP.

The requirements of the *Act to reduce the debt and establish the Generations Fund* are set out in the Appendix.

Reduction of the gross debt

As at March 31, 2019, the gross debt will stand at \$200.8 billion,² which is equivalent to 46.1% of GDP.

The objective of reducing the ratio of the gross debt to 45% of GDP will be achieved in 2020-2021, five years earlier than forecast.

Reduction of the debt representing accumulated deficits

As at March 31, 2019, the debt representing accumulated deficits will stand at \$111.5 billion, or 25.6% of GDP.

The objective of reducing the debt representing accumulated deficits to 17% of GDP will be achieved in 2025-2026, as provided for in the Act.

² Section I of the *Québec Budget Plan – March 2019* provides detailed information on the Québec government's debt.

2.2 Sums dedicated to the Generations Fund

Payments to the Generations Fund since its creation in 2006 will enable the government to achieve its debt reduction objectives set in the Act.

In 2018-2019, revenues of \$3.1 billion are deposited in the Generations Fund.

For 2019-2020 and 2020-2021, \$2.5 billion and \$2.7 billion respectively will be deposited in the Generations Fund.

❑ Use of the Generations Fund to repay the debt

As announced by the government in the fall 2018 update, \$10 billion over two years is being used from the Generations Fund (\$8 billion in 2018-2019 and \$2 billion in 2019-2020) to reduce Québec's debt on financial markets and lower the government's interest charges.

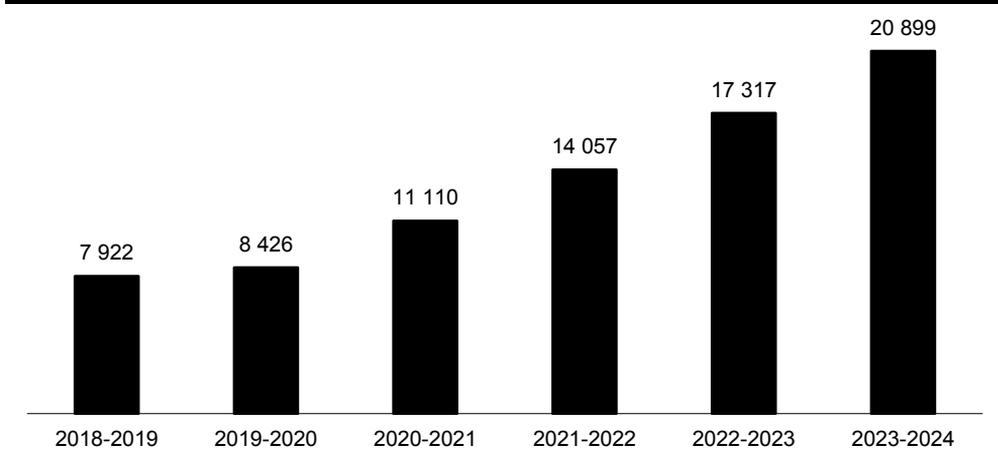
❑ Evolution of the Generations Fund

Taking into account the deposits made since the creation of the Fund and those forecast for the coming years, as well as the use of the fund to repay borrowings on financial markets,³ the book value of the Generations Fund will reach \$20.9 billion as at March 31, 2024.

CHART C.2

Growth in the book value of the Generations Fund

(millions of dollars)



³ In 2013-2014, the Generations Fund had also been used (\$1.0 billion) to repay borrowings on financial markets.

□ Deposits in the Generations Fund

Deposits in the Generations Fund come mainly from:

- water-power royalties by Hydro-Québec and private producers of hydro-electricity;
- income from the indexation of the price of heritage electricity;
- additional contribution of \$215 million per year from Hydro-Québec;
- mining revenues collected by the government;
- an amount of \$500 million per year drawn from the specific tax on alcoholic beverages;
- investment income.

TABLE C.3

Generations Fund (millions of dollars)

	2018- 2019 ⁽¹⁾	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024
Book value, beginning of year	12 816	7 922	8 426	11 110	14 057	17 317
Dedicated revenues						
Water-power royalties						
Hydro-Québec	699	706	736	751	786	809
Private producers	103	102	104	106	108	110
Subtotal	802	808	840	857	894	919
Indexation of the price of heritage electricity	258	305	385	475	575	680
Additional contribution from Hydro-Québec	215	215	215	215	215	215
Mining revenues	231	245	292	319	352	387
Specific tax on alcoholic beverages	500	500	500	500	500	500
Unclaimed property	15	15	15	15	15	15
Investment income ⁽²⁾	1 085	416	437	566	709	866
Total dedicated revenues	3 106	2 504	2 684	2 947	3 260	3 582
Use of Generations Fund to repay borrowings	-8 000	-2 000	—	—	—	—
BOOK VALUE, END OF YEAR	7 922	8 426	11 110	14 057	17 317	20 899

(1) For information purposes, the market value of the Generations Fund as at December 31, 2018, was \$11.3 billion, or \$1.1 billion higher than its book value at that date.

(2) The investment income of the Generations Fund corresponds to realized investment income (interest income, dividends, gains on the disposal of assets, etc.). The forecast may thus be adjusted upward or downward according to the timing of realized gains or losses. The substantial investment income in 2018-2019 is explained by the materialization of a portion of the investment gains resulting from the use of the Generations Fund to repay the debt. In addition to the realized gains from withdrawals from the Generations Fund, an annual return of 4.8% is expected, a rate based on the actual results of the past five years.

APPENDIX: LEGISLATIVE REQUIREMENTS

□ **The *Balanced Budget Act***

The *Balanced Budget Act* (CQLR, chapter E-12.00001) was passed unanimously by the National Assembly on December 19, 1996. The Act stipulates that the government must table balanced budget estimates and sets out the applicable rules in the case of a surplus or an overrun.

Under the *Balanced Budget Act*, if an overrun of less than \$1 billion is recorded for a fiscal year, the government must achieve an equivalent surplus in the next fiscal year.

The Act stipulates that the government may incur overruns for a period of more than one year, where such overruns total at least \$1 billion as a result of circumstances defined in the Act, namely, a disaster having a major impact on revenue or expenditure, a significant deterioration of economic conditions or a change in federal programs of transfer payments to the provinces that would substantially reduce transfer payments to the government.

If there is an overrun of at least \$1 billion, the Minister of Finance must report to the National Assembly on the circumstances justifying that the government incur such overruns. In addition, the Minister must present a financial plan allowing those overruns to be offset within a five-year period and apply offsetting measures covering at least \$1 billion as of the fiscal year in which such an overrun is anticipated, or the following year in the case where an overrun is recorded. He must offset at least 75% of those overruns within the first four fiscal years of that period.

The Act also established a stabilization reserve in order to facilitate the government's multi-year budget planning and, subsidiarily, to allow sums to be deposited in the Generations Fund. Any surpluses recorded for a fiscal year are automatically allocated to this reserve whose main purpose is to maintain a balanced budget.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the objectives of the Act, their achievement and any variance recorded, and on the operations of the stabilization reserve.

❑ **The Act to reduce the debt and establish the Generations Fund**

The *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter R-2.2.0.1) was passed on June 15, 2006. This statute established the Generations Fund, a fund dedicated exclusively to repaying the gross debt.

In 2010, the Act was amended to revise the concepts of debt used and the debt reduction objectives that must be achieved by 2025-2026.

The Act stipulates that, for fiscal year 2025-2026, the gross debt must not exceed 45% of GDP and the debt representing accumulated deficits must not exceed 17% of GDP.

Under the provisions of the Act, the Generations Fund is constituted of the following sums from revenue sources dedicated to debt repayment:

- water-power royalties paid by Hydro-Québec and private producers of hydro-electricity;
- part of Hydro-Québec's earnings on the sale of electricity outside Québec as a result of its increased generating capacity;⁴
- revenues from the indexation of the price of heritage electricity since 2014;
- fees or charges for water withdrawal;⁴
- since 2015-2016, the total of fees, duties, rentals and mining royalties provided for in the *Mining Tax Act* and the *Mining Act*. This amount is established once the duties allocated to the mining heritage and mining activity management components of the Natural Resources Fund have been subtracted;
- in 2014-2015 and 2015-2016, \$100 million a year, increasing to \$500 million a year as of 2016-2017, from the specific tax on alcoholic beverages;
- from 2017-2018 to 2043-2044, \$215 million per year from Hydro-Québec;
- sale of government assets, rights or securities;⁴
- unclaimed property administered by Revenu Québec;
- gifts, legacies and other contributions received by the Minister of Finance;
- income generated by the investment of the sums making up the Generations Fund.

The Act allows the government to order that a part, which it establishes, of any sum that would otherwise have been attributed to the General Fund of the Consolidated Revenue Fund be allocated to the Generations Fund.

Similarly, that Act authorizes the government, subject to the provisions of the *Balanced Budget Act*, to use the stabilization reserve to deposit sums in the Generations Fund.

⁴ An order in council of the government is required to set the portion of these amounts that must be allocated to the Generations Fund.

The sums constituting the Generations Fund are deposited with the Caisse de dépôt et placement du Québec and managed in accordance with an investment policy determined by the Minister of Finance, in collaboration with the Caisse.

The Act also stipulates that the Minister of Finance may take any sum from the Generations Fund and use it to repay the debt.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the evolution of the debt representing accumulated deficits and of the gross debt, on the sums constituting the Generations Fund and on any sums used to repay the gross debt.

Section D

MEASURES THAT REQUIRE LEGISLATIVE AND REGULATORY AMENDMENTS

1. Measures that require legislative and regulatory amendments.....	D.3
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1. MEASURES THAT REQUIRE LEGISLATIVE AND REGULATORY AMENDMENTS

Certain measures, several of which are presented in the 2019-2020 budget documents require legislative and regulatory amendments. They will be presented by the Minister of Finance in the framework of a bill aimed mainly at implementing certain provisions of the Budget Speech of March 21, 2019 or by the ministers responsible for the laws and regulations requiring amendments.

Gradually eliminating the additional contribution for childcare

Legislative amendments will be made to the *Educational Childcare Act* to allow the gradual elimination of the additional contribution for childcare. For this purpose, amendments will also be made to the *Reduced Contribution Regulation*.

Increasing the exemption for income from support payments in respect of dependent children

The exemption for income from support payments in respect of dependent children will be increased. This income is presently taken into account in calculating financial assistance under certain government programs.

For this purpose, amendments will be made to the *Individual and Family Assistance Regulation*, the *Regulation respecting financial assistance for education expenses*, the *By-law respecting the conditions for the leasing of dwellings in low-rental housing* and the *Regulation respecting legal aid*.

Excluding diesel used for purposes other than transport from the calculation of the annual duty payable to the Green Fund

The *Act respecting the Régie de l'énergie* will be amended so that diesel used for purposes other than transport will be excluded from the calculation of the annual duty payable to the Green Fund, as it read between June 13, 2013 and January 1, 2015.

Modifying the variable remuneration of certain persons appointed by the government or the National Assembly

Legislative amendments will be made to permanently eliminate bonuses or variable remuneration based on performance and paid to persons appointed by the government or the National Assembly.

Harmonizing the wording of the consumer price index excluding alcoholic beverages and tobacco products for Québec

In February 2019, Statistics Canada modified the wording of the index “without alcoholic beverages and tobacco products” to take into account recreational cannabis. This index is currently used in a number of laws and regulations to periodically index various amounts and rates.

To ensure that the body of Québec legislation and regulations refers to the consumer price index excluding alcoholic beverages, tobacco products and recreational cannabis, legislative amendments must be made.

Enhancing Investissement Québec’s capitalization

The *Act respecting Investissement Québec* will be amended to increase Investissement Québec’s authorized capital. This additional capital will enable it to use its own equity to increase its transactions with businesses, particularly loans and equity participation.

Expanding the Mining and Hydrocarbon Capital Fund’s scope

In order to support the exploitation and processing of all natural resources, the scope of the Mining and Hydrocarbon Capital Fund will be expanded to projects related to all natural resources and energy development. The necessary amendments will be made to the *Act respecting Investissement Québec*.

Facilitating access to data for research

The *Act respecting the Institut de la statistique du Québec* will be amended to simplify and improve access to information for researchers using the service window. The Act will also be amended to enable the Institut to fully exercise its role as a statistics agency.

Encouraging support for international sporting events

The *Act to establish the Sports and Physical Activity Development Fund* will be amended to increase the annual amount drawn from the revenues generated by the specific tax on tobacco products and deposited in the Sports and Physical Activity Development Fund.

Promoting Québec’s cultural heritage

The *Act respecting the Ministère de la Culture et des Communications* will be amended to increase the annual amount drawn from the revenues generated by the specific tax on tobacco products and deposited in the Québec Cultural Heritage Fund.

Blocking access to public contracts for businesses and promoters that have used abusive tax avoidance strategies

The *Act respecting contracting by public bodies* will be amended so that the following are listed in the register of enterprises ineligible for public contracts (RENA):

- businesses on which a penalty has been imposed further to a final assessment for abusive tax avoidance;
- promoters of the transactions in question on whom a penalty has been imposed on the same basis.

Also, adjustments consequential to this measure will be made to the *Taxation Act* and to the confidentiality rules provided for in the *Tax Administration Act*.

Extending the attestation from Revenu Québec to the public building cleaning services sector

The *Taxation Act* will be amended to make it mandatory to obtain the attestation from Revenu Québec for contracts worth \$10 000 or more for cleaning public buildings. In addition to encouraging compliance with the working conditions set forth in government decrees, this measure will fight tax evasion and unreported work in this sector.

Strengthening corporate transparency

Legislative amendments will be made to the *Act respecting the legal publicity of enterprises* to improve its legal coherency.

Amendments will also be made to this Act to empower the Registraire des entreprises du Québec to require the supply of information or documents needed to verify the legality and accuracy of the declarations filed with the registrar.

Entrusting administration of the *Money-Services Businesses Act* to Revenu Québec

The Québec government passed the *Money-Services Businesses Act* in 2010 to help combat tax fraud and money laundering schemes involving money-services businesses more effectively.

To act on the recommendation of the *Report on the Application of the Money-Services Businesses Act*, the government intends to entrust the administration of this Act to Revenu Québec. Legislative amendments will therefore be made to the Act.

