

BUDGET

March 2021

2021
2022

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ADDITIONAL

INFORMATION



Budget 2021-2022
Additional Information

Legal deposit – March 25, 2021
Bibliothèque et Archives nationales du Québec
ISBN 978-2-550-88886-4 (Print)
ISBN 978-2-550-88887-1 (PDF)

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1. MEASURES RELATING TO THE QUÉBEC SALES TAX

1.1 Clarifications to the December 21, 2020 announcement regarding the Québec sales tax for electronic commerce

As part of the budget speech on March 27, 2018, the Québec government announced measures to ensure the Québec sales tax (QST) would be collected and remitted in the context of the digital economy.¹ These measures were implemented in 2019.

More specifically, it was expected that the QST system would be changed to require suppliers with no physical or significant presence in Québec to register with Revenu Québec, under a new specified registration system, for the purpose of collecting and remitting the QST applicable to their taxable supplies of incorporeal movable property and services made in Québec to specified Québec consumers. Digital property and services distribution platforms allowing these suppliers to make such supplies were also affected by this measure.

It was also provided that, in the case of suppliers without a physical or significant presence in Québec but located in Canada, the requirement to register under the new system would also apply to the collection and remittance of the QST applicable to their taxable supplies of corporeal movable property.

On November 30, 2020, as part of its economic statement, the Government of Canada tabled some legislative proposals with respect to the application of the goods and services tax and the harmonized sales tax (GST/HST) in relation to electronic commerce supplies (hereinafter, “federal proposals”), some of which echo measures already adopted by Québec in this regard.

The Québec government already made public on December 21, 2020 its general intention to harmonize the QST system with the federal proposals, indicating that clarifications would be announced at a later date.² Those clarifications are presented in this subsection.

¹ MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, pp. A.5-A.16.

² MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2020-15*, December 21, 2020, p. 3.

❑ **Cross-border digital products and cross-border services**

The federal proposals on cross-border digital products and cross-border services will establish a simplified registration and remittance framework for the purpose of applying the GST/HST, for non-resident vendors and non-resident distribution platform operators³ who do not carry on business in Canada and are not registered under the normal GST/HST rules.

Generally speaking, these proposals reflect the measures adopted by Québec with regard to implementing a specified registration system in the QST system, for suppliers making taxable supplies of incorporeal movable property or services in Québec to specified Québec consumers without a physical or significant presence in Québec, as well as for digital property and services distribution platforms allowing these suppliers to make such supplies.

However, to avoid any difference in harmonization between the QST and GST/HST systems that may result from the implementation of the federal proposals relating to cross-border digital products and cross-border services (e.g. provisions relating to the calculation of the \$30 000 threshold), amendments will be made to the Québec tax legislation to adjust it accordingly.

■ **Application date**

The amendments to the Québec tax legislation will be adopted only following assent to any federal statute implementing the federal proposals, taking into account any technical amendments that may be made prior to assent. In addition, they will come into effect on the same date as the date retained to implement the federal proposals with which they are harmonized.

❑ **Goods supplied through fulfillment warehouses**

In broad terms, the federal proposals for the application of GST/HST on goods supplied through fulfillment warehouses involve:

- requiring distribution platform operators⁴ to register under the normal GST/HST rules and to collect and remit the GST/HST in respect of sales of goods that are located in fulfillment warehouses in Canada, or shipped from a place in Canada to a purchaser in Canada, when those sales are made by non-registered vendors through distribution platforms;

³ These digital platforms facilitate sales of third-party vendors.

⁴ See the preceding note.

- requiring non-resident vendors to register under the normal GST/HST rules and remit the GST/HST in respect of sales of goods that are located in fulfillment warehouses in Canada, or shipped from a place in Canada to a purchaser in Canada, when those sales are made by the non-resident vendors on their own, that is, they are not made through a distribution platform;
- requiring fulfillment businesses in Canada to notify the Canada Revenue Agency that they are carrying on a fulfillment business and to maintain records regarding their non-resident clients and the goods they store on behalf of their non-resident clients.

In keeping with the general principle of harmonization of the QST system and the GST/HST system, changes will be made to the Québec tax legislation in order to incorporate into it, all of the federal proposals for the application of the GST/HST with respect to supplies of goods made through fulfillment warehouses, by adapting them based on the general principles of the Québec tax system and taking into account its particularities and the provincial context in which the QST is applied.

For greater clarity, the amendments made to Québec's tax legislation will mean that:

- distribution platform operators are required to register under the normal QST rules and to collect and remit the tax applicable to sales of corporeal movable property that are located in fulfillment warehouses in Québec or shipped from a place in Québec to a purchaser in Québec (hereinafter, “qualifying supplies”), where those qualifying supplies are made by non-registered vendors through distribution platforms;
- non-resident vendors are required to register under the normal QST rules and to collect and remit the tax applicable to qualifying supplies, when those supplies are made by the non-resident vendors on their own, that is, they are not made through a distribution platform;
- fulfillment businesses in Québec will be required to notify Revenu Québec that they are carrying on a fulfillment business and to maintain records regarding their non-resident clients and the corporeal movable property they store on behalf of their non-resident clients.

Furthermore, specific changes will be made to the Québec tax system to take into account the provincial context in which the QST is applied.

To that end, the specified registration system will be changed to ensure the QST applicable to sales of corporeal movable property located in fulfillment warehouses in Canada but outside Québec or shipped from a place in Canada but outside Québec to a specified Québec consumer in Québec (hereinafter, “specified qualifying supplies”).

- **Distribution platform operators registered under the general GST/HST system**

Distribution platform operators registered under the general GST/HST system will be required to register with Revenu Québec, under the specified registration system, and to collect and remit the QST applicable to specified qualifying supplies that vendors not carrying on a business in Québec and not registered under the general QST system (hereinafter, “non-resident suppliers”) make in Québec to specified Québec consumers through distribution platforms.

If those distribution platform operators are already registered under the specified registration system because the platform they are operating allows non-resident suppliers to make taxable supplies of incorporeal movable property or services in Québec to specified Québec consumers, they will also be required to collect and remit the QST applicable to specified qualifying supplies that non-resident suppliers make in Québec to specified Québec consumers through the distribution platform.

The mandatory registration measure for distribution platform operators under the specified registration system will apply when the value of the considerations for taxable incorporeal movable property and services of the distribution platform operators as well as taxable specified qualifying supplies that the distribution platform enables non-resident suppliers to make in Québec to specified Québec consumers exceeds or is expected to exceed \$30 000 during a 12-month period.

- **Non-resident suppliers registered under the general GST/HST system**

Non-resident suppliers who, because they are registered under the general GST/HST system, are already required to register under the specified registration system, will be required to collect and remit the QST applicable to all taxable supplies, including specified qualifying supplies, that they make in Québec directly to specified Québec consumers, that is, without the use of a distribution platform.

These non-resident suppliers will be required to register under the specified registration system when the value of the considerations for all taxable supplies, including specified qualifying supplies, they make in Québec directly to specified Québec consumers exceeds or is expected to exceed \$30 000 during a 12-month period.

■ **Application date**

The amendments to the Québec tax legislation resulting from harmonization with the federal proposals will be adopted only after the assent of any federal legislation implementing these proposals, taking into account any technical amendments that may be made before assent. In addition, they will come into effect on the same date as the date retained to implement the federal proposals with which they are harmonized.

The changes relating to the specified registration system will come into effect on the same date as the date retained to implement the federal proposals for the application of the GST/HST with respect to supplies of property made through fulfillment warehouses.

□ **Platform-based short-term accommodation**

The federal proposals are designed such that the GST/HST applies to all supplies of short-term accommodation in Canada facilitated by a digital platform operator.

In keeping with the general principle of harmonization of the QST system with the GST/HST system, the Québec tax legislation will be amended in order to incorporate into it all of the federal proposals relating to the application of the GST/HST to platform-based short-term accommodation, by adapting them based on the general principles of the Québec tax system and taking into account its particularities and the provincial context in which the QST is applied.

■ **Application date**

The amendments to the Québec tax legislation will be adopted only following assent to any federal statute implementing the federal proposals, taking into account any technical amendments that may be made prior to assent. In addition, they will come into effect on the same date as the date retained to implement the federal proposals with which they are harmonized.

2. MEASURES CONCERNING BUSINESSES

2.1 Increase in the small business deduction rate and addition of an option for the number of remunerated hours

In Québec, the general tax rate applicable to corporations is 11.5%.

A Canadian-controlled private corporation whose paid-up capital is \$10 million or less and whose adjusted aggregate investment income is \$50 000 or less receives a tax rate reduction of 7.5 percentage points on the first \$500 000 of annual income—the business limit⁵—from an eligible business, which lowers the tax rate applicable to the first \$500 000 from 11.5% to 4%. This reduced tax rate is also known as the small business deduction, or SBD.

To fully benefit from the SBD, a corporation must also be a primary and manufacturing sectors corporation, or meet a criterion pertaining to the number of remunerated hours.

A corporation is a “primary and manufacturing sectors corporation” for a taxation year if over 25% of its activities consist of primary and manufacturing sectors activities. A corporation whose proportion of primary and manufacturing sectors activities reaches 50% qualifies for the highest rate of the SBD. The corporation's SBD rate is reduced linearly, where its proportion of primary and manufacturing sectors activities is between 25% and 50%, and reaches zero when this proportion is 25% or less.

A corporation satisfies, for a given taxation year, the criterion pertaining to the number of remunerated hours and may benefit from the highest rate of the SBD if either of the following conditions are met:

- for the given year, the remunerated hours of its employees totalled at least 5 500;
- for the taxation year preceding the given year, the remunerated hours of its employees and those of the corporations with which it is associated totalled at least 5 500.

To ensure that a corporation does not lose all of its SBD because of a minor discrepancy with the required threshold, a corporation's SBD rate for a taxation year is reduced linearly, where the total number of remunerated hours is between 5 500 and 5 000, and reaches zero when the total does not exceed 5 000 hours.

⁵ The \$500 000 business limit is gradually reduced if the corporation's paid-up capital and that of the corporations with which it is associated is between \$10 million and \$15 million and if the adjusted aggregate investment income of the corporation and the corporations with which it is associated is between \$50 000 and \$150 000. It is totally eliminated when paid-up capital reaches \$15 million or the adjusted aggregate investment income reaches \$150 000.

□ Increase in the small business deduction rate

To further ease the tax burden on SMBs, the current 7.5% SBD rate will be raised so that the maximum rate available to a corporation for the period that begins on the day following the day of the budget speech is 8.3%.

The following table shows the tax rates applicable to corporations that qualify for the full SBD.

TABLE A.1

Minimum tax rate applicable to income eligible for the SBD (per cent)

	Applicable rate	
	January 1, 2021 to the day of the budget speech	From the day following the day of the budget speech
General tax rate	11.5	11.5
Maximum SBD rate ⁽¹⁾	-7.5	-8.3
TOTAL	4.0	3.2

(1) This rate is reduced linearly, where the number of remunerated hours of the corporation's employees is less than 5 500 hours but more than 5 000 hours, or where the proportion of the corporation's primary and manufacturing sectors activities is between 25% and 50%. It reaches zero when the number of remunerated hours does not exceed 5 000 and the proportion of the corporation's primary and manufacturing sectors activities does not exceed 25%.

The announced change to the SBD rate will apply to a corporation's taxation years ending after the day of the budget speech.

If a taxation year of a corporation straddles periods to which different SBD rates apply, the SBD rate that will apply to the corporation for that taxation year will correspond to an average rate calculated taking into account the number of days in the taxation year included in each period and the SBD rate applicable to each of these periods.

The other terms and conditions pertaining to the SBD— as regards, for example, the linear reduction of the SBD rate on the basis of the number of remunerated hours and the proportion of primary and manufacturing sectors activities—will remain unchanged.

■ Instalment payments

A corporation's instalment payments may be adjusted, as applicable, in accordance with the usual rules, as of the first instalment that follows the day of the budget speech, to take into consideration the changes to the SBD rate.

❑ Addition of an option for the number of remunerated hours

As part of the measures put in place to mitigate the effects of the COVID-19 pandemic, some corporations were forced to temporarily cease operating, which may have reduced the number of remunerated hours and, as a result, decreased the SBD rate that they would otherwise have been able to benefit from. Some corporations may even lose all of their SBD as a result.

On June 29, 2020,⁶ the Ministère des Finances announced that changes would be made to the Québec tax legislation in order to add an ad hoc adjustment to the calculation of the remunerated hours of a corporation or partnership, which covered the period from March 15, 2020 to June 29, 2020.⁷

In order to limit the negative impact of a temporary suspension of a corporation or partnership activities that occurred after June 2020 on the calculation of the SBD, the tax legislation will be amended to introduce an option concerning the number of remunerated hours.

Accordingly, for a given taxation year that ended after June 30, 2020, but before July 1, 2021, a corporation may apply to the Minister of Revenue for the number of remunerated hours that were used to determine whether it was eligible for the SBD or to establish its SBD rate, for its taxation year immediately preceding the given year, to be used to determine whether it qualifies for the SBD or to establish its SBD rate for the given year.

For a given fiscal period of a partnership that ends after June 30, 2020 and before July 1, 2021, a corporation that is a member of the partnership during a taxation year in which the given fiscal period ends may apply to the Minister of Revenue for the partnership's remunerated hours, for its fiscal period ended immediately before the given period, to be used to determine eligibility for the SBD of the corporation's share of the partnership's income for the given period.

A corporation may apply to the Minister of Revenue when filing its tax return, or if the tax return has already been sent, submit its request separately.

⁶ MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2020-9*, June 29, 2020, pp. 3-4.

⁷ Where all or part of the period that begins on March 15, 2020 and ends on June 29, 2020 (hereinafter, "closing period") is included in a corporation's given taxation year, the number of remunerated hours determined in respect of the corporation's employees, for the given year, will be deemed to be equal to the product obtained by multiplying the number of remunerated hours otherwise determined by the ratio of 365 to the number of days in the given year in excess of the number of days in the closing period in the given year. This adjustment also applies, with the necessary adaptations, to the calculation of the remunerated hours of a partnership.

2.2 Temporary increase in the tax credit relating to investment and innovation

On March 10, 2020,⁸ the tax credit relating to investment and innovation was introduced to encourage productivity gains of businesses in all regions of Québec, while further promoting investments in regions where the economic vitality index is low.

Briefly, the tax credit relating to investment and innovation is granted to a qualified corporation that acquires, after March 10, 2020 and before January 1, 2025, manufacturing or processing equipment, general-purpose electronic data processing equipment or certain management software packages. It is calculated on the portion of the specified expenses incurred to acquire a specified property in excess of \$5 000 or \$12 500, depending on the property.

The specified expenses in respect of which a qualified corporation may claim the tax credit relating to investment and innovation may not, however, exceed a cumulative limit of \$100 million.

The tax credit rate applicable to a qualified corporation in respect of a specified property is established based on the zone where the specified property is acquired to be used mainly and is equal to the following:

- if the property is acquired to be used mainly in the low economic vitality zone:⁹ 20%;
- if the property is acquired to be used mainly in the intermediate zone:¹⁰ 15%;
- if the property is acquired to be used mainly in the high economic vitality zone:¹¹ 10%.

⁸ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2020-2021 – Additional Information*, March 10, 2020, pp. A.3-A.18.

⁹ The low economic vitality zone consists of the territories included in the following regional county municipalities (RCMs), urban agglomerations and city: the RCMs of Antoine-Labelle, Argenteuil, Avignon, Bonaventure, Charlevoix-Est, La Côte-de-Gaspé, La Haute-Côte-Nord, La Haute-Gaspésie, La Matanie, La Matapédia, La Mitis, La Vallée-de-la-Gatineau, Golfe-du-Saint-Laurent, Rocher-Percé, Appalaches, Basques, Etchemins, Sources, Maria-Chapdelaine, Matawinie, Mékinac, Pontiac and Témiscouata, Communauté maritime des Îles-de-la-Madeleine, the urban agglomeration of La Tuque and the city of Shawinigan.

¹⁰ The intermediate zone consists of the territories located in Québec outside the low economic vitality zone and the high economic vitality zone.

¹¹ The high economic vitality zone consists of the municipalities whose territories constitute the Communauté métropolitaine de Montréal and the Communauté métropolitaine de Québec. For more information: *Act respecting the Communauté métropolitaine de Montréal* (CQLR, c. C-37.01), s. 2 and Sch. I; and *Act respecting the Communauté métropolitaine de Québec* (CQLR, c. C-37.02), s. 2 and Sch. A.

The tax credit relating to investment and innovation to which a qualified corporation is entitled, for a taxation year, may be refundable, in whole or in part, or non-refundable. The refundable portion of the tax credit is determined based on the qualified corporation's assets and gross income.

A qualified corporation that is a member of a qualified partnership may, on certain conditions, benefit from the tax credit relating to investment and innovation in respect of its share of the specified expenses incurred by the partnership for the acquisition of a specified property.

In this current pandemic, Québec businesses are facing a high level of uncertainty, in particular with regard to their investment projects.

In order to encourage them to carry out their investment projects and to stimulate Québec's economic recovery, the tax credit relating to investment and innovation will be temporarily increased.

The tax legislation will therefore be amended to temporarily double the rates of the tax credit relating to investment and innovation so that the tax credit rate is equal to:

- 40% for a specified property acquired to be used mainly in the low economic vitality zone;
- 30% for a specified property acquired to be used mainly in the intermediate zone;
- 20% for a specified property acquired to be used mainly in the high economic vitality zone.

The table below shows the rates of the tax credit relating to investment and innovation.

TABLE A.2

Rates of the tax credit relating to investment and innovation
(per cent)

Place where the property is acquired to be used mainly	Rates applicable after March 10, 2020 and ending on the day of the budget speech	Rates applicable after the day of the budget speech but before January 1, 2023	Rates applicable after December 31, 2022 but before January 1, 2025
Low economic vitality zone	20	40	20
Intermediate zone	15	30	15
High economic vitality zone	10	20	10

☐ Application date

This temporary increase will apply to specified expenses incurred after the day of the budget speech but before January 1, 2023, to acquire a specified property after the day of the budget speech but before January 1, 2023, or to acquire a specified property after the day of the budget speech but before April 1, 2023, if:

- the property is acquired in accordance with a written obligation contracted before January 1, 2023; or
- the construction of the property by or on behalf of the corporation or partnership begins before January 1, 2023.

However, the temporary increase will not apply to:

- a property acquired in accordance with a written obligation contracted on or before the day of the budget speech;
- a property whose construction by or on behalf of the corporation or partnership had started the day of the budget speech.

2.3 Changes to the tax holiday for large investment projects

The tax holiday for large investment projects was introduced in the 2013-2014 budget speech.¹²

Briefly, a corporation that carries out a large investment project in Québec may, under certain conditions, benefit from a tax holiday in respect of the income from its eligible activities relating to the project and a holiday from employer contribution 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, benefit from a holiday from HSF contribution 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 benefit from a tax holiday in respect of its share of the income from eligible activities of the partnership relating to the project.

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 development of digital platforms.

¹² MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Budget 2013-2014 – Budget Plan*, November 20, 2012, pp. H.23-H.32.

In addition, 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.

The capital investment threshold that must be met for project qualification purposes is \$100 million. However, the threshold is \$50 million if all or substantially all of the investment project is carried out in a designated region¹³ and if it is shown that all or substantially all of the resulting activities will be carried out, throughout the tax-free period, in such a region.

The tax-free period is the 15-year period starting on the date of the beginning of the tax-free period for the project specified by the Minister of Finance on the first annual certificate issued for this project. 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 of the beginning of the tax-free period.

To benefit from 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 no later than December 31, 2024.

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

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, no later than December 31, 2024 and no later than the date the application for the first annual certificate is made for the first investment project.

In order to support Québec businesses in carrying out of their investment project and to make the tax holiday for large investment projects more appealing, the following three changes will be made:

- extension of the start-up period for certain investment projects;
- addition of a choice for a corporation or a partnership with respect to the date of the beginning of the tax-free period for its investment project;
- possibility for a project to modernize a business through digital transformation to be recognized as a large investment project.

¹³ The \$50-million threshold has been in effect since March 22, 2019. The threshold was previously \$75 million. The designated regions are the following administrative regions, regional county municipalities (RCMs) and urban agglomeration: Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie-Îles-de-la-Madeleine, Nord-du-Québec, Saguenay-Lac-Saint-Jean, Granit RCM, Haut-Saint-François RCM, Mékinac RCM, Pontiac RCM, La Vallée-de-la-Gatineau RCM, Antoine-Labelle RCM, Charlevoix-Est RCM and the urban agglomeration of La Tuque.

❑ Temporary extension of the start-up period

The *Act respecting the sectoral parameters of certain fiscal measures* (hereinafter, the “Sectoral Act”) provides that, to benefit from the tax holiday for an investment project, a corporation or partnership must, among other things, within the 60-month start-up period, starting on the date the initial qualification certificate is issued for the investment project, or on the date the amended initial qualification certificate is issued in the case of a second investment project, have incurred capital expenditure attributable to the carrying out of the project at a minimum amount corresponding to the capital investment threshold applicable to the project.

Amendments will be made to the Sectoral Act so that this 60-month start-up period is extended for 12 months in respect of an investment project, or a second investment project, for which an application for an initial qualification certificate, or an application to amend the initial certificate, as the case may be, has been made to the Minister of Finance before the day of the budget speech.

However, this amendment will not apply to an investment project, or to a second investment project, as the case may be, in respect of which a first annual certificate has been issued on or before the day of the budget speech.

❑ Addition of a choice relating to the date of the beginning of the tax-free period

Currently, the Sectoral Act provides that the tax-free period for a large investment project is to begin on the later of the following dates:

- the date on which the total capital investments attributable to the carrying out of the project first reaches the capital investment threshold applicable to the project;
- the date on which the activities arising from the carrying out of the project begin or, where such activities gradually begin, the date on which at least 90% of the goods intended to be used in the course of such activities are ready to be used.

Moreover, the tax-free period for a large investment project may not begin after the end of the start-up period applicable to the project.

The Sectoral Act will be amended to allow a corporation or partnership, as the case may be, to choose the date of the beginning of the tax-free period applicable to its large investment project.

The selected date must be indicated on the application form for the first annual certificate for the investment project.

The selected date must also be included in the period starting on the day on which the total capital investments attributable to the carrying out of the project first reach the capital investment threshold applicable to the project and ending on the last day of the 60-month or 72-month start-up period, as the case may be, for the project.

The date of the beginning of the tax-free period for a large investment project will correspond to the date specified by the Minister of Finance on the first annual certificate issued in respect of the large investment project, which will be determined considering the date selected by the corporation or partnership, as the case may be, in that regard.

If a corporation or partnership does not choose the date of the beginning of the tax-free period for its large investment project, the date will be the last day of the start-up period of the investment project.

The choice given to a corporation or partnership as to the date of the beginning of the tax-free period for its large investment project will also be given, under the same conditions but with the necessary adaptations, for a second investment project, if applicable.

For greater clarity, the tax-free period for a large investment project or a second investment project, as the case may be, remains the same and will still refer to the 15-year period that begins on the date of the beginning the tax-free period specified on the first annual certificate issued for the project.

■ **Corresponding adjustments for calculating the tax assistance limit**

As described above, tax assistance relating to a large investment project is subject to a limit, which may not exceed 15% of the total qualified capital investments relating to the project, determined on the date of the beginning of the tax-free period for the project.

Amendments will be made to the *Taxation Act* and the *Act respecting the Régie de l'assurance maladie du Québec*¹⁴ so as to provide that the tax assistance limit for a corporation or partnership with respect to its large investment project or second investment project, as the case may be, will henceforth be temporarily determined, for a taxation year of the corporation or a fiscal period of the partnership ending after the date of the beginning of the tax-free period for the investment project, on a particular date corresponding to the end of the taxation year or the end of the fiscal period, as the case may be.

The final determination of the tax assistance limit for the large investment project or the second investment project, as the case may be, will be made on the last day of the start-up period applicable to the investment project.

¹⁴ CQLR, chapter R-5.

■ **Application date**

The amendments allowing a corporation or partnership to select the date of the beginning of the tax-free period for an investment project will apply to an investment project or a second investment project, as the case may be, in respect of which the Minister of Finance has not issued a first annual certificate by the day of the budget speech.

□ **Broadening the eligible sectors of activity**

The Sectoral Act will be amended to add to the projects that would qualify as a large investment project of a corporation or partnership, investment projects involving any activity sector where the investment project is to modernize a business of the corporation or partnership, as the case may be, through digital transformation.

A project to modernize a business through digital transformation refers to an investment project aimed at developing and implementing a digital solution by integrating or upgrading an information system or technology infrastructure, resulting in organizational and operational changes within the business.

The digital solution must focus on value creation for all or part of the business of the corporation or partnership. In addition, the primary objective of the investment project must be one or more of the following objectives:

- optimize the management and analysis of the company's data and the use of its resources;
- increase the company's productivity or efficiency by process automation;
- improve relationships with suppliers or customers by processing information collected about them in real time.

An investment project that consists of an asset maintenance plan or is part of the company's normal course of business cannot qualify as a project to modernize a business through digital transformation.

For greater clarity, a project to modernize a business through digital transformation will be subject to all of the other conditions that must be met for an investment project to be recognized as a large investment project. Accordingly, such projects must meet the criterion for achieving and maintaining the capital investment threshold applicable to the project, as well as the condition that the activities arising from the investment project are carried out in Québec.

Lastly, the capital investments attributable to carrying out a project to modernize a business through digital transformation will correspond to the capital expenditures incurred to acquire digital equipment, software and other components of the technology infrastructure or the information system, as well as the expenses incurred to adapt the company's equipment in connection with the implementation of the digital solution.

■ **Application date**

These changes will apply to investment projects that begin to be carried out after the day of the budget speech.

2.4 Temporary enhancement of the refundable tax credit for on-the-job training periods

The purpose of the refundable tax credit for on-the-job training periods is to support the efforts of businesses that contribute to the development of the professional competence of students and apprentices.

Briefly, a taxpayer who carries on a business in Québec, has an establishment in Québec and hires a student or apprentice for a qualified training period may, under certain conditions, benefit from the refundable tax credit for on-the-job training periods.

The tax credit is based on the qualified expenditure in respect of an eligible trainee, which consists of wages or salary paid to a trainee as part of a qualified training period and wages or salary paid to an eligible supervisor for the hours devoted to the supervision of the trainee. However, the qualified expenditure is curtailed by various factors based on the training period and trainee involved.

The basic rate of the tax credit is 24% where the taxpayer is a corporation and 12% where the taxpayer is an individual. These two rates are 32% and 16%, respectively, where the eligible trainee is a disabled person, an immigrant or an Aboriginal person, or where the training takes place in an establishment of the taxpayer located in an eligible region.¹⁵ These rates may be increased in the case of eligible trainees enrolled in an education program or a prescribed program.

To facilitate labour market integration of students and apprentices, while encouraging businesses to contribute to the development of young people's skills, the tax credit rates, other than the enhanced rates applicable to eligible trainees enrolled in an education program or a prescribed program, will be increased by 25%.

¹⁵ *Eligible region* means one of the following administrative regions, regional county municipalities (RCMs) or urban agglomeration: Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine, Mékinac RCM, Antoine-Labelle RCM, La Vallée-de-la-Gatineau RCM, Pontiac RCM, and La Tuque urban agglomeration.

The tax legislation will be amended so that:

- the basic rate of the tax credit is increased from 24% to 30% where the eligible taxpayer is a corporation;
- the basic rate of the tax credit is increased from 12% to 15% where the eligible taxpayer is an individual;
- where the eligible trainee is a disabled person, an immigrant, an Aboriginal person or where the on-the-job training takes place in an eligible region:
 - the tax credit rate is increased from 32% to 40% where the eligible taxpayer is a corporation,
 - the tax credit rate is increased from 16% to 20% where the eligible taxpayer is an individual.

For greater clarity, the enhanced rates of the tax credit will remain unchanged in respect of an eligible trainee enrolled in an education program or a prescribed program.

These amendments will apply to qualified expenditures incurred after the day of the budget speech and before May 1, 2022 in respect of a qualified training period beginning after the day of the budget speech.

Accordingly, the refundable tax credit rates for on-the-job training periods, taking into account the temporary enhancement, will be as shown in the table below.

TABLE A.3

Refundable tax credit rate for on-the-job training periods
 (per cent)

	Start date of training period		
	On or before the day of the budget speech	After the day of the budget speech, with regard to a qualified expenditure incurred after that day and before May 1, 2022	For a qualified expenditure incurred after April 30, 2022
Basic rate			
Employer's status:			
– Corporation	24	30	24
– Individual	12	15	12
Disabled person, immigrant, Aboriginal person or person serving a training period in an eligible region			
Employer's status:			
– Corporation	32	40	32
– Individual	16	20	16
Education program or prescribed program⁽¹⁾			
Employer's status:			
– Corporation	40	40	40
– Individual	20	20	20
Education program or prescribed program,⁽¹⁾ in respect of a disabled person, immigrant, Aboriginal person or person serving a training period in an eligible region			
Employer's status:			
– Corporation	50	50	50
– Individual	25	25	25

(1) These rates apply to a training period completed by an individual enrolled as a full-time student in an education program at the secondary, college or university level or a prescribed program offered by a recognized educational institution. The program must provide for one or more training periods totalling at least 140 hours. The eligible taxpayer's qualified expenditure must be at least \$2 500 for three consecutive taxation years or more.

2.5 Elimination of the requirement to obtain an advance ruling for R&D tax credits

A taxpayer who carries on a business in Canada and who undertakes scientific research and experimental development (R&D) in Québec, or causes such R&D to be undertaken on the taxpayer's behalf, can benefit from various refundable tax credits.

Likewise, a taxpayer who is a member of a partnership that carries on a business in Canada and undertakes R&D in Québec, or causes such R&D to be undertaken on its behalf, can also benefit from these refundable tax credits, under certain conditions.

A first of these refundable tax credits is commonly known as “R&D salary.”¹⁶ Among other things, it applies to the wages a taxpayer or partnership pays to its employees for its own R&D work in Québec, or one half of the amount of the research contract where the R&D work is awarded to a subcontractor who is dealing at arm's length.

A second refundable tax credit commonly known as “R&D university,”¹⁷ applies to, among other things, 80% of the amount of a research contract where the R&D work is awarded on a subcontracting basis to an eligible university entity, eligible public research centre or eligible research consortium to which the person awarding the R&D work, or a member of the partnership, is not related.

Currently, a taxpayer can benefit from a R&D university tax credit only if a favourable advance ruling has been given by the Minister of Revenue regarding the research contract.

Furthermore, an individual who is a member of a partnership may only benefit from his portion of the R&D salary tax credit or the R&D university tax credit if a favourable advance ruling by the Minister of Revenue has been given confirming that the objectives of these tax credits and formalities for obtaining financing have been met.

In order to reduce the administrative procedures for R&D tax credits, the tax legislation will be amended to eliminate the requirement to obtain a favourable advance ruling from the Minister of Revenue to benefit from these tax credits.¹⁸

This requirement will be replaced by changes to the information collected by Revenu Québec to verify the conditions for applying these tax credits and continue to ensure the integrity of the measures.

¹⁶ This tax credit is provided for in Division II of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act*.

¹⁷ This tax credit is provided for in Division II.1 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act*.

¹⁸ These restrictions are provided for in Division II.2 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act*.

The changes will apply as of the day following the day of the budget speech.

Where an application for an advance ruling has already been sent, but no ruling has yet been given, the Minister of Revenue will give the applicant the opportunity to withdraw the application.

2.6 Addition of restrictions to certain tax incentives

The Québec tax system includes various tax incentives aimed, for example, at encouraging certain activities or a certain behaviour. These tax measures may take the form of a refundable or non-refundable tax credit, or a tax holiday.

Some tax incentives require a certificate, attestation or other document issued by a government department or sectoral body, while for other tax incentives, the administrative responsibilities are solely those of Revenu Québec.

All of these tax incentives require that specific conditions be met by the applicant, whether it is related, for example, to the activity the applicant is carrying out, the sector in which the applicant operates or the region where the applicant's activities are carried out.

Several tax incentives, particularly in the cultural sector, also include specific restrictions, such as those on content intended for an adult audience that contains explicit sex scenes. Other tax measures also include restrictions on content that promotes, among other things, discrimination, racism or violence.

For most incentives provided by the Québec tax system, these restrictions are sufficient. However, the changes in digital technology necessitated a review of the current restrictions in terms of the objectives of this tax assistance and brought to light the need to introduce specific restrictions to ensure that those objectives are achieved.

Accordingly, amendments will be made to the tax legislation and the *Act respecting the sectoral parameters of certain fiscal measures* (hereinafter, “the Sectoral Act”) so as to add the restrictions needed for various tax incentives, taking into account the context of each of the measures and whether or not there is a department or sectoral body attesting beforehand to the compliance with certain conditions.

Tax holiday for large investment projects

The tax holiday for large investment projects was introduced in the 2013-2014 budget speech.¹⁹

¹⁹ MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Budget 2013-2014 – Budget Plan*, November 20, 2012, pp. H.23-H.32.

Briefly, a corporation that carries out a large investment project in Québec may, under certain conditions, benefit from a tax holiday in respect of the income from its eligible activities relating to the project and a holiday from employer contribution 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, benefit from a holiday from HSF contribution 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 benefit from a tax holiday in respect of its share of the income from eligible activities of the partnership relating to the project.

To qualify as a large investment project, a project must, among other things, pertain to activities in the following sectors: manufacturing, wholesale trade, warehousing and storage, data processing, hosting and related services, or the development of eligible digital platforms, or even being a project to modernize a business through digital transformation.²⁰

When activities related to developing a digital platform were introduced, it was indicated that the activities to develop a digital platform that hosts, or is intended to host, certain content such as that encouraging violence or any form of discrimination or comprising explicit sex scenes could not constitute a large investment project.

In order to strengthen current restrictions, a similar exclusion will be added for activities in the data processing, hosting and related services sector.²¹

Therefore, in order for a project in the data processing, hosting and related services sector to be recognized as a large investment project, the corporation or partnership carrying out the investment project must, in addition to meeting the conditions already provided, establish to the Minister of Finance's satisfaction that:

- reasonable measures will be taken so that the activities arising from the investment project do not involve the hosting, production or sharing of content encouraging violence, sexism, racism or any other form of discrimination or comprising explicit sex scenes or graphic representations of such scenes; or
- all or substantially all of the content hosted, produced or shared will not be content encouraging violence, sexism, racism or any other form of discrimination or comprising explicit sex scenes or graphic representations of such scenes.

This amendment will apply to an investment project other than a project for which an initial qualification certificate has been issued on or before the day of the budget speech.

²⁰ More details about the tax holiday for large investment projects are provided in section 2.3.

²¹ These activities are grouped under code 518 of the North American Industry Classification System (NAICS).

❑ R&D tax credits

A taxpayer²² that carries on a business in Canada and who undertakes scientific research and experimental development (R&D) in Québec, or causes such R&D to be undertaken on the taxpayer's behalf in Québec under a research contract, can benefit from various refundable tax credits.

A first refundable tax credit, commonly known as “R&D salary,” concerns, among other things, the wages that a taxpayer pays to its employees for R&D work in Québec, or one half of the amount of the research contract where the R&D work is awarded to a subcontractor who is dealing at arm's length with the taxpayer.

A second refundable tax credit, commonly known as “R&D university,” concerns, among other things, 80% of the amount of a research contract where the R&D work is awarded on a subcontracting basis to an eligible university entity, eligible public research centre or eligible research consortium to which the taxpayer, who is awarding the R&D work, is not related.

The third refundable tax credit concerns pre-competitive research carried out in private partnership. This refundable tax credit concerns R&D work that two or more persons or partnerships agree to carry out in collaboration in Québec, or to cause to be carried out on their behalf in Québec, under a research contract.

The fourth refundable tax credit concerns fees paid to an eligible research consortium. Essentially, this refundable tax credit concerns the fees that a taxpayer pays to an eligible research consortium and that can be reasonably considered as relating to R&D work carried out by the consortium relating to a business of the taxpayer.

²² A taxpayer that is a member of a partnership that carries on a business in Canada and undertakes R&D in Québec, or causes such R&D to be undertaken on its behalf in Québec under a research contract, can also, under certain conditions, benefit from these various refundable tax credits.

The tax legislation lists several expenses that do not constitute wages, a consideration or a qualified expenditure for the purposes of these tax credits.²³ That is the case, for example, for an expenditure of a current nature incurred by or on behalf of a taxpayer in respect of the general administration or management of a business.

The tax legislation will be amended to add a new exclusion for the purposes of the various refundable R&D tax credits. As such, wages and consideration paid or a qualified expenditure paid or made in respect of scientific research and experimental development carried out in a taxation year or fiscal period, will not include all or part of an amount that can reasonably be considered to be an expenditure in respect of:

- a digital platform that hosts or allows for the sharing, or is intended to host or allow for the sharing, of content comprising explicit sex scenes or graphic representations of such scenes, unless, for the taxation year or fiscal period, all or substantially all of the content hosted or shared, or intended to be hosted or shared, does not comprise such content or it is established, to the satisfaction of the Minister of Revenue, that reasonable measures were taken by the taxpayer or the partnership to prevent the expenditure from being incurred in respect of such a platform; or
- a multimedia title that comprises explicit sex scenes or graphic representations of such scenes.

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

□ Tax credit for the development of e-business

The tax credit for the development of e-business (hereinafter, “TCEB”) was introduced²⁴ to provide tax assistance to specialized businesses that carry out innovative, high value-added activities related to e-business in the information technology sector, chiefly in the fields of computer systems design and software publishing.

Tax assistance for the development of e-business consists of a refundable tax credit and a non-refundable tax credit calculated on the wages paid by a qualified corporation to eligible employees carrying out an eligible activity.

²³ For information purposes, in applying the R&D salary refundable tax credit, such restrictions on wages or a consideration are listed in subparagraph *b* of the third paragraph of section 1029.7 of the *Taxation Act*.

²⁴ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2008-2009 – Additional Information on the Budgetary Measures*, March 13, 2008, pp. A.79-A.85.

A corporation wishing to claim the TCEB, for a taxation year, must, in particular, obtain from Investissement Québec a corporation certificate certifying that the corporation meets, for the year, the criteria relating to activities, the criterion relating to services supplied and the criterion relating to maintenance of a minimum number of jobs.

It must also obtain, for the taxation year, a certificate for each of its employees for which it wishes to claim the TCEB. This certificate certifies that the individual named therein meets, in particular, the requirements for the duties he or she performs in connection with eligible activities.

In this regard, subject to what is otherwise provided for in the Sectoral Act, each of the following activities constitutes an eligible activity:

- information technology consulting services relating to technology or systems development, or consulting services in e-business processes and solutions, to the extent that the consulting services relate to an activity described below;
- the development or integration of information systems, or of technology infrastructures, as well as, to the extent that it is incidental to such a development or integration activity carried on by the corporation, any activity relating to the maintenance or evolution of such information systems or such technology infrastructures or to the design or development of e-commerce solutions allowing a monetary transaction between the person on behalf of whom the design or development is carried out and that person's customers;²⁵
- the development of security and identification services.

As such, the Sectoral Act lists several activities that, despite the foregoing, are not eligible activities. For example, activities not primarily related to e-business are not eligible activities for the purposes of the TCEB.

An amendment will be made to the Sectoral Act so that, in order to determine an employee's eligibility, non-eligible activities also include activities that could reasonably be considered to be related to a digital platform that hosts, or allows for the sharing, or is intended to host or allow for the sharing, of content encouraging violence, sexism, racism or any other form of discrimination or comprising explicit sex scenes or graphic representations of such scenes, except if it has been demonstrated, to the satisfaction of Investissement Québec, that:

- reasonable measures were taken by the corporation to ensure that the activities carried out by its employees are not related to such a platform; or

²⁵ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2020-2021 – Additional Information*, March 10, 2020, pp. A.48-A.50.

- all or substantially all of the content hosted or shared, or that is intended to be hosted or shared, does not comprise such content.

These amendments will apply to a corporation's taxation year that begins following the day of the budget speech.

☐ Tax credit relating to investment and innovation

Briefly, the tax credit relating to investment and innovation allows a corporation²⁶ that acquires a specified property to claim, on certain conditions, a tax credit calculated on the portion of specified expenses incurred to acquire the property in excess of \$5 000 or \$12 500, depending on the property.

Specified property includes, but is not limited to, property that is general-purpose data processing equipment and related system software, that is, property included in Class 50 of Schedule B to the *Regulation respecting the Taxation Act*. In order to qualify as a specified property, the property must, among other things, be used mainly or only in Québec, as the case may be, for a period of at least 730 days after it began to be used by the qualified corporation.²⁷

The tax legislation will be amended so that property that is acquired to be used or that will be used during the 730-day period after it began to be used by the qualified corporation to host, produce or allow for the sharing of content comprising explicit sex scenes or graphic representations of such scenes cannot qualify as a specified property, except if:

- it is established, to the satisfaction of the Minister of Revenue, that reasonable measures were taken by the corporation to prevent the property from being used to host, produce or share such content; or
- all or substantially all of the content hosted, produced or shared does not comprise such content.

This amendment will also apply, with the necessary adaptations, where the property is acquired by a qualified partnership.

It will apply in respect of a property acquired after the day of the budget speech.

²⁶ A qualified corporation that is a member of a qualified partnership may, on certain conditions, receive the tax credit relating to investments and innovation in respect of its share of the specified expenses incurred by the partnership.

²⁷ Additional information on the tax credit relating to investment and innovation is provided in section 2.2.

❑ Tax credits for multimedia titles

As part of the budget speech of May 9, 1996,²⁸ an initial refundable tax credit for the production of multimedia titles was introduced (hereinafter, “tax credit – general component”). A corporation that wishes to receive this tax assistance must obtain the required certificates regarding each multimedia title it produces.

Subsequently, as part of the Budget Speech of March 31, 1998,²⁹ a second refundable tax credit was introduced for corporations whose activities consist mainly of producing multimedia titles (hereinafter, “tax credit – specialized component”). A corporation that intends to claim this tax credit must obtain the required certificates regarding all of its activities.

These tax measures allow, on certain conditions, a qualified corporation to claim a refundable tax credit calculated on its qualified labour expenditure regarding a property that is an eligible multimedia title or an eligible related title.

The Sectoral Act stipulates that a title that encourages violence, sexism or discrimination cannot be recognized as an eligible multimedia title or as an eligible related title.

This restriction will be amended to add titles that comprise explicit sex scenes or graphic representations of such scenes.

This amendment will apply, in respect of both the tax credit – general component and the tax credit – specialized component, to an application for a certificate filed with Investissement Québec for a taxation year beginning after that day.

❑ Synergy capital tax credit

As part of the budget speech on March 10, 2020,³⁰ the synergy capital tax credit was announced.

Briefly, the synergy capital tax credit is granted to a corporation, other than a financial institution, a real estate sector corporation or a corporation whose activities consist mainly in granting loans or making investments, that subscribes shares of the capital stock of a qualified corporation in the life sciences, manufacturing or processing, green technologies, artificial intelligence or information technologies sectors.

This tax assistance is calculated at a rate of 30% on the amount paid by the corporation for the subscription of shares. The subscribed shares must be retained by the corporation for a minimum period of five years.

²⁸ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1996-1997 – Budget Speech and Additional Information*, May 9, 1996, Appendix A, pp. 45-48.

²⁹ *Idem.*, *1998-1999 Budget – Additional Information on the Budgetary Measures*, March 31, 1998, Section 1, pp. 46-50.

³⁰ See note 25, pp. A.27-A.37.

A corporation wishing to issue shares of its capital stock enabling another corporation to benefit from the tax credit has to meet certain conditions, in particular with regard to its size, the sector of activity in which it is engaged and the scale of its activities in Québec. It also has to obtain from Investissement Québec an authorized placement certificate to be able to issue shares of its capital stock, for the purposes of the tax credit, for the authorized placement amount for which the certificate was issued. The funds obtained further to the issuing of shares of its capital stock must be used by the corporation to make investments related to eligible activities in the course of running its business and not used for a non-eligible purpose.

For the purposes of the synergy capital tax credit, certain information technology activities constitute eligible activities. Furthermore, the use of funds to lend money, purchase land for resale or purchase a business constitutes, by way of example, a use of funds for a non-eligible purpose.

Amendments will be made to the synergy capital tax credit to add new non-eligible uses of funds.

Thus, a corporation's use of funds from the issuing of shares of its capital stock related to an authorized placement certificate for any of the following purposes will also be a use for a non-eligible purpose:

- the use of funds in connection with software or video game publishing or data processing activities whose content encourages violence, sexism, racism or any other form of discrimination or comprises explicit sex scenes or graphic representations of such scenes;
- the use of funds in connection with activities relating to data hosting or the design of computer systems for the hosting, production or exchange of content encouraging violence, sexism, racism or any other form of discrimination or comprising explicit sex scenes or graphic representations of such scenes, except if all or substantially all of the content hosted, produced or exchanged does not constitute such content or if the qualified corporation demonstrates, to the satisfaction of Investissement Québec, that it has taken reasonable measures to prevent the funds from being used for such a purpose.

These amendments will apply in respect of funds raised from the issuance of shares of a corporation's capital-stock done after the day of the budget speech.

3. MEASURES CONCERNING INDIVIDUALS

3.1 Enhancement to the refundable tax credit for home-support services for seniors

In the Québec tax system, the refundable tax credit for home-support services for seniors is an important part of the various support measures for seniors.

In effect since January 1, 2000, the tax credit for home-support services for seniors provides financial assistance to individuals aged 70 or over to stay in their living environment for as long as possible. This tax assistance protects their purchasing power by helping to finance the various services allowing them to stay in their home.

To that end, the tax credit for home-support services provides financial assistance corresponding to 35% of the amount of eligible expenses. These expenses cannot exceed \$19 500 per year per non-dependent senior and \$25 500 per dependent senior, such that the tax credit for home-support services does not exceed \$6 825 for a non-dependent senior and \$8 925 for a dependent senior.

In fall 2018,³¹ the government pledged to review the tax assistance for seniors so as to better meet their needs. Since then, the COVID-19 pandemic has highlighted the importance of supporting seniors who wish to stay in their homes and who require services to do so.

In order to improve the quality of life of these individuals and provide them with increased financial support, enhancements will be introduced to the calculation of the tax credit for home-support services for seniors namely, a gradual increase in the tax credit rate applicable to eligible expenses and, for seniors living in a rental apartment building, an increase in eligible expenses as well as the application of a “minimum eligible monthly rent.”

3.1.1 Change in the calculation parameters for the tax credit for home-support services for seniors

▣ Gradual increase in the rate of the tax credit for home-support services for seniors applicable to eligible expenses

In order to enhance tax assistance for seniors who qualify for the tax credit for home-support services for seniors, the rate of this tax credit applicable to eligible expenses will be gradually increased in the coming years. Starting in 2022, the current 35% tax credit rate will be raised annually by one percentage point to reach 40% in 2026, as shown in the table below.

³¹ MINISTÈRE DES FINANCES DU QUÉBEC, *Update on Québec's Economic and Financial Situation – Fall 2018*, December 3, 2018, pp. B.3 and B.18-B.20.

TABLE A.4

Gradual increase in the rate of the tax credit for home-support services for seniors
(per cent)

	2022	2023	2024	2025	2026
Tax credit rate	36	37	38	39	40

This increase in the rate of the tax credit for home-support services for seniors will benefit both non-dependent and dependent seniors.

■ **New terms for calculating the reduction of the tax credit home-support services for seniors based on income**

In 2008, for a fairer distribution of tax assistance for home-support services for seniors, while ensuring that higher-income individuals contribute more to the expenses they incur in that regard, the maximum amount of the tax credit for home-support services for seniors, determined in respect of a person, became reducible based on family income, that is, the person's income and, as the case may be, the income of the person's eligible spouse for the year.

Currently, the rate of this reduction is 3% for each dollar of family income that exceeds an annual threshold. For 2021, the annual threshold is set at \$60 135.³² Only non-dependent seniors are currently required to reduce the tax credit for home-support services for seniors based on their family income.

To further recognize the needs of seniors and ensure that greater consideration is given to family income, new terms are being introduced in relation to the mechanism for reducing the established tax credit for home-support services based on seniors' family income.

■ **Dependent seniors**

A dependent senior, for the purposes of the tax credit for home-support services for seniors, is a person who, according to a certificate from a physician or specialized nurse practitioner, meets either of the following conditions:

- depends and will continue to permanently depend, for a prolonged and indefinite period, on other people for most of the person's needs and personal care relating to hygiene, dressing, eating and mobility or transfers;
- needs constant supervision because of a severe mental disorder characterized by an irreversible breakdown in thought activity.

However, since 2013, seniors recognized as dependent persons for the purposes of the tax credit for home-support services for seniors have no longer been required to reduce the amount of the home-support tax credit for seniors based on their family income.

³² This threshold has been automatically indexed each year since 2009.

In order to provide greater support to dependent seniors who need it most, the tax legislation will be amended to reintroduce a reduction mechanism applicable to dependent seniors, while ensuring a minimum level of tax assistance.

This new reduction aimed at dependent seniors will only apply to the “amount of the enhanced tax credit for home-support services for seniors.”³³ This amount is defined by the following formula:

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

For the purposes of this formula:

- the letter A will correspond to the amount of eligible expenses for the particular taxation year after 2021;
- the letter B will correspond to the rate of the tax credit for home-support services for seniors for the particular taxation year after 2021;
- the letter C will correspond to the 35% rate.

The “amount of the enhanced tax credit for home-support services for seniors” will be reducible, for each of the taxation years subsequent to 2021, based on income, at a rate of 3% for each dollar of family income exceeding the applicable reduction threshold for each of the taxation years subsequent to 2021,³⁴ until the “amount of the enhanced tax credit for home-support services for seniors” is zero.

■ **Non-dependent seniors**

The reduction mechanism that applies to non-dependent seniors will also be changed to better reflect family income. The changes will come into effect in 2022.

As such, for these seniors, the tax credit for home-support services for seniors will at that point be reduced based on two family income thresholds:

- reduction based on the first threshold: the tax credit for home-support services for seniors will be reduced by 3% for each dollar of family income in the particular taxation year exceeding the first threshold applicable for the particular taxation year, up to the second threshold applicable for the particular taxation year;
- reduction based on the second threshold: the tax credit for home-support services for seniors will be reduced by 7% for each dollar of family income in the particular taxation year exceeding the second threshold applicable for the particular taxation year.

³³ In the case of a couple aged 70 or over where one of them is dependent, the reduction will be done according to the rules applicable to dependent seniors.

³⁴ The reduction threshold applicable to family income for the purposes of the tax credit for home-support services for seniors is indexed annually. For information purposes, the threshold applicable for the 2021 taxation year is \$60 135.

For greater clarity, the first threshold corresponds to the current reduction threshold in respect of family income, which is set at \$60 135 for 2021. This amount is indexed annually.

The second threshold corresponds to the amount of \$100 000 for 2022 and will be indexed annually starting in 2023, under the same parameters as those for the first threshold.

The following table illustrates the year-to-year application of the enhanced rate of the tax credit for home-support services for seniors and new reduction terms based on family income, for both non-dependent and dependent seniors.

TABLE A.5

Parameters for calculating the tax credit for home-support services for seniors for 2021 and new calculation parameters for 2022 to 2026

	2021	2022	2023	2024	2025	2026 (When fully implemented)
Non-dependent seniors						
– Tax credit rate	35%	36%	37%	38%	39%	40%
– 1st reduction threshold: family income (in \$) ⁽¹⁾	60 135	61 155	62 195	63 250	64 325	65 420
– 1st reduction rate	3%	3%	3%	3%	3%	3%
– 2nd reduction threshold: family income (in \$) ⁽¹⁾	—	100 000	101 700	103 430	105 190	106 980
– 2nd reduction rate	—	7%	7%	7%	7%	7%
Dependent seniors						
– Tax credit rate	35%	36%	37%	38%	39%	40%
– Reduction threshold: family income (in \$) ⁽¹⁾	60 135	61 155	62 195	63 250	64 325	65 420
– Reduction rate ⁽²⁾	—	3%	3%	3%	3%	3%

(1) The reduction thresholds will be indexed each year. The amounts shown starting in 2022 represent a forecast based on an average indexing rate of 1.7% per year, except for the \$100 000 amount applicable in 2022 as the second reduction threshold. These amounts are rounded to the nearest \$5.

(2) Only the “amount of the enhanced tax credit for home-support services for seniors” will be reduced.

□ Application date

The gradual increase in the rate of the tax credit for home-support services for seniors by one percentage point per year will apply as of 2022. Similarly, the reduction in the tax credit for home-support services for seniors based on family income under the new thresholds will also apply as of 2022.

3.1.2 Increase in eligible expenses in respect of the tax credit for home-support services for seniors living in a rental apartment building

Seniors renting a dwelling unit in a rental apartment building, other than a private seniors' residence, a public network facility of the public health and social services network or a private institution not under agreement that operates a residential and long-term care centre, may benefit from the tax credit for home-support services for seniors for expenses included in their rent.

For a senior living in a dwelling unit in a rental apartment building,³⁵ the amount of the tax credit for home-support services for seniors is calculated by applying the 35% rate to eligible expenses, including those included in the rent. The amount of eligible expenses included in the rent corresponds to 5% of the monthly rent of the dwelling unit of which the senior is a tenant, co-tenant or subtenant, up to a rent of \$600 per month.

No part of the rent other than that determined in this manner may be considered an eligible expense in respect of the tax credit for home-support services for seniors.

■ Increase in limit

In order to update the amount of eligible expenses in respect of the tax credit for home-support services for seniors living in a dwelling unit of a rental apartment building, the 5% rate that applies to the monthly rent will now apply to a maximum monthly rent of \$1 200 (instead of \$600) for the dwelling unit of which the senior is a tenant, co-tenant or subtenant, thereby doubling the maximum tax assistance in this regard.

■ Introduction of a “minimum eligible monthly rent” amount

In order for every senior aged 70 or over living in a dwelling unit of a rental apartment building to receive a tax credit for home-support services for seniors for eligible expenses included in their rent, a presumption will be introduced in the tax legislation to provide that the minimum amount for any rent will be \$600 per month, therefore establishing the lowest amount to which the 5% rate will apply in determining the deemed amount of minimum eligible expenses included in the rent for the purposes of the tax credit for home-support services for seniors living in a dwelling unit of a rental apartment building.

This amount will be referred to as the “minimum eligible monthly rent.”

³⁵ Other than a building that is a private residence for seniors, a public network facility in the public health and social services network or a private institution not under agreement that operates a residential and long-term care centre.

■ Automatic payment of the tax credit for home-support services for seniors related to the “minimum eligible monthly rent” amount

The government wants to ensure that all Québec seniors who qualify for the tax credit for home-support services for seniors and who live in a dwelling unit of a rental apartment building receive the minimum tax assistance they are entitled to under the tax credit for home-support services for seniors for the minimum eligible expenses included in their rent.

Thus, the tax credit for home-support services for seniors related to the amount of the “minimum eligible monthly rent” will be automatically paid by Revenu Québec to dependent seniors. The same will apply to non-dependent seniors whose family income entitles them to this, with the payment taking into account the applicable reduction based on their family income level.

For 2022, the tax credit for home-support services for seniors related to the amount of the “minimum eligible monthly rent,” before the reduction based on family income, for an individual living in a dwelling unit of a rental apartment building for the full year will be \$129.60, that is, 36% of the eligible expenses included in the rent, represented by 5% of \$7 200, which is the \$600 “minimum eligible monthly rent” set for the year.

Thus, when seniors living in a dwelling unit in a rental apartment building file their income tax returns and fail to claim the tax credit for home-support services for seniors for eligible expenses included in their rent, and as long as Revenu Québec has the information needed to determine their eligibility for this assistance,³⁶ tax assistance under the tax credit for home-support services for seniors related to the amount of the “minimum eligible monthly rent” could be paid to the individuals in question, without them having to apply for it, provided their family income and the applicable reduction entitles them to it.

In addition, seniors living in a dwelling unit of a rental apartment building who wish to receive tax assistance for expenses included in their rent based on the actual amount of their rent, subject to a maximum of \$1 200—and not only assistance based on the \$600 “minimum eligible monthly rent”—will have to apply for it.³⁷

■ Clarifications

In applying the new terms, as with the existing terms, if a rent amount is set for a term other than monthly (for instance, weekly), this amount must be converted to correspond to the rent payable for a monthly term.

The other terms and conditions used in determining the eligible expenses for the application of the tax credit for home-support services for a senior living in a dwelling unit of a rental apartment building remain unchanged.

³⁶ The information may be obtained through the RL-31 Slip or a copy of the dwelling unit lease previously provided to Revenu Québec.

³⁷ The application may be made through the income tax return (Schedule J) or, in the case of a request for advance payment of the tax credit for home-support services for seniors, through the prescribed form (TPZ-1029.MD.7).

❑ Application date

The new measures to increase the eligible expenses for the tax credit for home-support services for seniors included in the rent of a senior living in a dwelling unit of a rental apartment building will apply as of 2022.

3.2 Change in the rate of the dividend tax credit for non-eligible dividends

In this budget, an increase in the small business deduction (SBD) is announced.³⁸ To ensure a better integration of the Québec corporate tax system with the personal tax system, the rate of the dividend tax credit for non-eligible dividends will be reduced.

Consequently, the rate of the tax credit for non-eligible dividends, which is currently 4.01% of the grossed-up dividend amount, will be reduced to 3.42% of the grossed-up dividend amount of a dividend received or deemed received after December 31, 2021.³⁹

For greater clarity, no change is made to the non-eligible dividend gross-up rate.

³⁸ See subsection 2.1.

³⁹ The rate of the tax credit for non-eligible dividends will thus correspond to 3.93% of the actual amount of the dividend received or deemed received after December 31, 2021.

4. OTHER MEASURES

4.1 Modifications to tax-advantaged funds

4.1.1 Adjustment to investment requirements for the three tax-advantaged funds

Since the creation of the Fonds de solidarité FTQ, Fondation and Capital régional et coopératif Desjardins, the government has supported the growth of these investment funds by allowing them to raise capital that provides a tax benefit in the form of a non-refundable tax credit granted to individuals who become their shareholders.

The financing of these tax-advantaged funds being facilitated by the granting of a tax benefit, an investment requirement was included in their respective constituting acts⁴⁰ to ensure, notably, that the funds collected are used as a financing tool contributing to the development of Québec entities.

The requirement imposed on labour-sponsored funds (Fonds de solidarité FTQ and Fondation) requires that, for each fiscal year, their eligible investments represent, on average, at least 65% of their average net assets for the preceding fiscal year.

Given the specific mission of Capital régional et coopératif Desjardins, its constituting act requires that, for each fiscal year, its eligible investments represent, on average, at least 65% of its average net assets for the preceding fiscal year and that a portion corresponding to at least 35% of that percentage be invested in eligible cooperatives or in entities situated in the resource regions of Québec.

Failure to meet its investment requirement for a particular fiscal year will result in a tax-advantaged fund being limited in its capacity to issue shares during the following fiscal year.

Over the years, various changes have been made to the terms and conditions for calculating investment requirements for tax-advantaged funds and to the list of investments that are eligible, so that, for each tax-advantaged fund, the investment requirement is better suited to its mission and the capital needs of Québec businesses.

⁴⁰ *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)* (CQLR, c. F-3.2.1); *Act to establish Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* (CQLR, c. F-3.1.2); *Act constituting Capital régional et coopératif Desjardins* (CQLR, c. C-6.1).

The list of eligible investments for the purposes of the investment requirements includes investments that entail no security or hypothec and that consist, among other things, in investments in eligible Québec 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 established and managed in Québec.

❑ Renewal of the local fund category

At present, investments considered eligible for the purposes of the investment requirement for each tax-advantaged fund consist of investments that include neither security nor hypothec made by a tax-advantaged fund, during a period beginning on April 22, 2005 and ending on May 31, 2021, in a local venture capital fund established and managed in Québec or in a local fund recognized by the Minister of Finance, provided, on the one hand, that the investments are made with the expectation that an amount at least equal to 150% of the sums received from the tax-advantaged fund and, where applicable, from the two other tax-advantaged funds, are invested by the local fund in Québec enterprises whose assets are less than \$100 million or whose net equity is less than \$50 million and, on the other hand, the investments are not already taken into account as eligible investments for the purposes of the fund's investment requirement.

This category of investments (hereinafter, “local fund category”) was created, at the time, to structure a private venture capital industry that would offset the lack of capital for businesses in pre-startup or startup situations or for businesses in technology sectors. To this day, it remains a tool that supports the creation and development of new Québec businesses.

In addition, to take into account the higher risk factor of investments covered by the local funds category, the amount of investments included in this category currently benefits from a 50% increase for the purpose of calculating the investment requirement of a tax-advantaged fund for a fiscal year ending before January 1, 2022.

Given that the development of entrepreneurship, mainly through the creation of small and medium-sized businesses, is a driver of Québec's economic growth, the constituting act of each tax-advantaged fund will be amended to extend the investment period applicable to the local fund category until May 31, 2026 and to extend, for any fiscal year of the fund ending before January 1, 2027, the 50% increase in the amount of investments included in this category for the purpose of calculating its investment requirement.

4.1.2 Changes to various parameters of Capital régional et coopératif Desjardins

Capital régional et coopératif Desjardins was constituted on July 1, 2001 and is governed by the *Act constituting Capital régional et coopératif Desjardins*. Its mission is to raise venture capital for the benefit of Québec's resource regions and the cooperative sector.

Since the creation of Capital régional et coopératif Desjardins, the government has supported its mission by allowing it to raise capital that provides a tax benefit.

In this regard, a tax benefit in the form of a non-refundable tax credit is granted to an individual who acquires, as first purchaser, shares of the capital stock of Capital régional et coopératif Desjardins. The rate of the tax credit in respect of acquisition is 35%, and these shares are redeemable at the request of the shareholder who acquired them at least seven years prior to redemption.

Since few investors have requested the redemption of their shares over the years, the capital stock of Capital régional et coopératif Desjardins was changed as part of the 2018-2019 budget speech⁴¹ to ensure the company has greater availability of capital to invest.

With these changes, a second class of shares was created to allow shareholders to exchange shares acquired at least seven years prior to redemption (now class "A" shares) for class "B" shares, which are redeemable only after mandatory seven-year retention period, from the exchange.

A non-refundable tax credit is granted to shareholders to encourage them to exchange their shares. It corresponds to 10% of the value of the shares or fractional shares exchanged, up to an amount of \$15 000, giving a non-refundable tax credit of up to \$1 500.

Given that the financing of Capital régional et coopératif Desjardins is facilitated by the granting of a tax benefit, a number of measures have been taken to govern its organization, to protect its investors and to ensure that it adheres to its mission.

⁴¹ MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, pp. A.105-A.109.

In that regard, the *Act constituting Capital régional et coopératif Desjardins* requires that, for each fiscal year, its eligible investments represent at least 65% of its average net assets for the preceding fiscal year and that investments representing at least 35% of that percentage be made in eligible cooperatives or in entities situated in the resource regions of Québec.⁴²

Furthermore, restrictions apply to the amounts that Capital régional et coopératif Desjardins may collect from the subscription of shares during a capitalization period or the maximum value resulting from the exchange of shares that it may allow during a conversion period.

Amendments will be made to the *Act constituting Capital régional et coopératif Desjardins* and the tax legislation to:

- allow Capital régional et coopératif Desjardins to proceed, on an exceptional basis, with two more capitalization periods exceeding its capitalization limit;
- reduce the non-refundable tax credit in respect of the acquisition of a share;
- extend other conversion periods for the exchange of shares;
- renew investment support measures in territories facing economic difficulties.

☐ Exception to the maximum capitalization of Capital régional et coopératif Desjardins

According to the *Act constituting Capital régional et coopératif Desjardins*, Capital régional et coopératif Desjardins can raise a maximum amount of \$150 million per capitalization period,⁴³ as long as it has not reached for the first time, at the end of a capitalization period, at least \$1.25 billion on account of paid-up capital regarding issued and outstanding shares and fractional shares.

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

⁴² For the purposes of the regional component of the investment requirement of Capital regional et coopératif Desjardins, are considered resource regions of Québec the regions of Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie-Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay-Lac-Saint-Jean. In addition, for the purposes of this component, are considered to have been made in entities located in Québec's resource regions eligible investments made in certain regional county municipalities (RCM) outside resource regions facing economic difficulties.

⁴³ A capitalization period begins on March 1 of a year and ends on the last day of February of the following year.

Capital régional et coopératif Desjardins passed the \$1.25-billion threshold for the first time in 2013.

Exceptionally, for its capitalization period ending on February 29, 2016, Capital régional et coopératif Desjardins was authorized to raise a maximum amount of \$150 million. It was also authorized to raise, exceptionally, a maximum amount of \$135 million for the capitalization periods ending February 28, 2017 and 2018 and a maximum amount of \$140 million for the capitalization periods ending February 28, 2019, February 29, 2020 and February 28, 2021.

An exception to the maximum capitalization of Capital régional et coopératif Desjardins will again be granted, in order to authorize Capital régional et coopératif Desjardins to raise a maximum of \$140 million for each of the capitalization periods beginning on March 1, 2021 and 2022 and ending on the last day of February of the following year.

Correlative amendments will be made to the tax legislation concerning the special tax relating to excessive capitalization.

❑ Reduction of the non-refundable tax credit

In the context of the additional exception to Capital régional et coopératif Desjardins's maximum capitalization, the extension of conversion periods and in order to contribute to the return to a balanced budget, the tax legislation will be amended to provide that the rate of the non-refundable tax credit for the acquisition of class "A" shares of the capital stock of Capital régional et coopératif Desjardins will be reduced from 35% to 30% in respect of any class "A" shares acquired after February 28, 2021.

Correlative amendments will be made to the tax legislation concerning the special tax relating to excessive capitalization and the special tax relating to the recovery of the tax credit for the purchase of shares.

❑ Extension of conversion periods

Under the *Act constituting Capital régional et coopératif Desjardins*, Capital régional et coopératif Desjardins may exchange shares for a maximum value of \$100 million for the conversion periods beginning March 1, 2018, 2019 and 2020 and ending on the last day of February of the following year.

The tax legislation and the *Act constituting Capital régional et coopératif Desjardins* will be amended on the one hand to add two new conversion periods, to begin on March 1, 2021 and 2022 and end on the last day of February of the following year, and on the other hand to limit the maximum value of share conversions to \$50 million for each of these conversion periods.

Correlative amendments will be made to the tax legislation concerning the special tax relating to an excess conversion and the special tax relating to the recovery of the tax credit for the exchange of shares.

❑ Renewal of investment support in territories facing economic difficulties

As part of the 2014-2015 budget speech,⁴⁴ various amendments were announced to the *Act constituting Capital régional et coopératif Desjardins* to reflect the importance of the role that Capital régional et coopératif Desjardins can play in financing businesses established in territories where economic development indices have been the lowest, whether or not such territories are in a resource region.

These support measures for territories facing economic difficulties were renewed, with some adaptations, in the 2018-2019 budget speech.⁴⁵

Briefly, these support measures⁴⁶ provide, on the one hand, that any eligible investment made in an entity situated in a regional county municipality facing economic difficulties, whose name is included in the table below, is considered, for the purposes of Capital régional et coopératif Desjardins' investment requirement, to have been made in an entity situated in a resource region.

TABLE A.6

List of regional county municipalities outside resource regions facing economic difficulties

Acton	La Vallée-de-la-Gatineau	Les Etchemins	Nicolet-Yamaska
Antoine-Labelle	Le Granit	Les Sources	Papineau
Argenteuil	Le Haut-Saint-François	L'Islet	Pierre-De Saurel
Charlevoix-Est	Le Haut-Saint-Laurent	Matawinie	Pontiac
D'Autray	Les Appalaches	Montmagny	

Note: This list of regional county municipalities applies to investments made after December 31, 2017 and before January 1, 2021.

⁴⁴ Ministère des Finances du Québec, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp.73-76.

⁴⁵ See note 41, pp. A.111-A.114

⁴⁶ They apply, respectively, to an eligible investment made after December 31, 2013 and before January 1, 2018, and then to such an investment made after December 31, 2017 and before January 1, 2021.

On the other hand, these support measures provide that an investment entailing no security or hypothec, made by Capital régional et coopératif Desjardins after December 31, 2017 and before January 1, 2021 in an eligible entity situated in a territory identified as facing economic difficulties, would be deemed to be increased by 100%, up to \$750 000,⁴⁷ for the purposes of the investment requirement.⁴⁸

The following table lists the territories identified as facing economic difficulties for the purposes of the increase relating to investments made after December 31, 2017 and before January 1, 2021.

TABLE A.7

List of territories facing economic difficulties

Abitibi-Ouest	La Haute-Gaspésie	Le Rocher-Percé	Montmagny
Acton	La Matanie	Les Appalaches	Nicolet-Yamaska
Antoine-Labelle	La Matapédia	Les Basques	Papineau
Argenteuil	La Mitis	Les Etchemins	Pierre-De Saurel
Avignon	La Tuque	Les Îles-de-la-Madeleine	Pontiac
Bonaventure	La Vallée-de-la-Gatineau	Les Sources	Shawinigan
Charlevoix-Est	Le Domaine-du-Roy	L'Islet	Témiscamingue
D'Au-tray	Le Golfe-du-Saint-Laurent	Maria-Chapdelaine	Témiscouata
Kamouraska	Le Granit	Maskinongé	
La Côte-de-Gaspé	Le Haut-Saint-François	Matawinie	
La Haute-Côte-Nord	Le Haut Saint-Laurent	Mékinac	

Note: This list of territories applies to investments made after December 31, 2017 and before January 1, 2021.

To continue supporting Capital régional et coopératif Desjardins and to support investment in territories facing economic difficulties, the support measures announced in the 2018-2019 budget speech will be renewed under the same terms for a new three-year period.

Thus, the *Act constituting Capital régional et coopératif Desjardins* will be amended so that any eligible investment made after December 31, 2020 and before January 1, 2024 in an entity situated in a regional county municipality facing economic difficulties will be considered, for the purposes of Capital régional et coopératif Desjardins' investment requirement, to have been made in an entity situated in a resource region.

⁴⁷ The maximal amount is \$500 000 for an investment made after December 31, 2013 and before January 1, 2018.

⁴⁸ Certain terms of application are also provided for, among others, in regard to investments made through limited partnerships.

The *Act constituting Capital régional et coopératif Desjardins* will also be amended to extend the deemed increase of 100%, for the purposes of the investment requirement, so that it applies to all investments entailing no security or hypothec made by Capital régional et coopératif Desjardins, or through a limited partnership, after December 31, 2020 and before January 1, 2024, in an eligible entity situated in a territory identified as facing economic difficulties, up to \$750 000.

4.2 Maintenance of the compensation tax for financial institutions

Financial institutions must pay, for a taxation year, a compensation tax that is calculated using two tax bases—amounts paid as wages and insurance premiums (including amounts established in respect of insurance funds).

Various changes have been made to the compensation tax for financial institutions in recent years, the most recent of which was announced in the March 10, 2020 budget.⁴⁹

As a result of these changes, the rates applicable to the two tax bases of the compensation tax for financial institutions are:

- for amounts paid as wages:
 - in the case of a bank, loan corporation, trust corporation or corporation trading in securities, other than an independent loan corporation, an independent trust corporation and an independent corporation trading in securities, a rate of 4.14% for the period from April 1, 2020 to March 31, 2022 and 2.8% for the period from April 1, 2022 to March 31, 2024,
 - in the case of a savings and credit union, a rate of 3.26% for the period from April 1, 2020 to March 31, 2022 and 2.2% for the period from April 1, 2022 to March 31, 2024,
 - in the case of any other person,⁵⁰ including an independent loan corporation, an independent trust corporation and an independent corporation trading in securities, a rate of 1.32% for the period from April 1, 2020 to March 31, 2022 and 0.9% for the period from April 1, 2022 to March 31, 2024;

⁴⁹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2020-2021 – Additional Information*, March 10, 2020, pp. A.50-A.53.

⁵⁰ This category excludes an insurance company and a professional order that has set up an insurance fund under section 86.1 of the *Québec Professional Code* (CQLR, chapter C-26). Also, a financial corporation that has not made the joint election provided for in section 150 of the *Excise Tax Act* with a financial institution included in another category is no longer subject to the compensation tax as of January 1, 2013.

- for insurance premiums and amounts established in respect of insurance funds, a rate of 0.48% for the period from December 3, 2014 to March 31, 2022 and 0.3% for the period from April 1, 2022 to March 31, 2024.

Where the financial institution is a financial institution throughout a taxation year, the amounts paid as wages on which it is required to pay a compensation tax, for the taxation year, are limited based on a maximum amount subject to tax determined according to the category to which the financial institution belongs.

Thus, the maximum amount subject to tax, for a taxation year, of a person that is a financial institution throughout the taxation year is the following amount, calculated on an annual basis:

- in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, other than an independent loan corporation, an independent trust corporation and an independent corporation trading in securities: \$1.1 billion;
- in the case of a savings and credit union: \$550 million;
- in the case of any other person,⁵¹ including an independent loan corporation, an independent trust corporation and an independent corporation trading in securities: \$275 million.

Since, under its current terms, the compensation tax for financial institutions must end on March 31, 2024, a person's maximum amount subject to tax for the taxation year that includes March 31, 2024, is equal to the product obtained by multiplying the maximum amount subject to tax that would otherwise apply to it by the proportion that the number of days included in the part of the taxation year preceding April 1, 2024 is of 365.

In order for financial institutions to continue contributing to the funding of public services, the compensation tax for financial institutions will be maintained beyond March 31, 2024.

The tax legislation will therefore be amended so that an amount of compensation tax must also be paid by a person that is a financial institution for a period after March 31, 2024. The terms and rates of the compensation tax that were to apply for the period beginning April 1, 2022 and ending March 31, 2024 will continue to apply after March 31, 2024.

⁵¹ See preceding note.

The tax legislation will also be amended so that the maximum amount subject to tax, for a taxation year that includes March 31, 2024 and for any subsequent taxation year, of a person that is a financial institution throughout the taxation year corresponds to the following amount, calculated on an annual basis:

- in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, other than an independent loan corporation, an independent trust corporation and an independent corporation trading in securities: \$1.1 billion;
- in the case of a savings and credit union: \$550 million;
- in the case of any other person,⁵² including an independent loan corporation, an independent trust corporation and an independent corporation trading in securities: \$275 million.

4.3 Further extension of the credit on the employer contribution to the Health Services Fund in respect of employees on paid leave

In March 2020, the Government of Canada announced the implementation of the Canada Emergency Wage Subsidy as part of *Canada's COVID-19 Economic Response Plan*.⁵³

Briefly, the Canada Emergency Wage Subsidy includes, on the one hand, a base wage subsidy and a top-up wage subsidy based on the wages paid by a qualifying entity to its eligible employees, whose combined rate may reach 75% for the qualifying period ending March 13, 2021, allowing a qualifying entity to obtain a maximum amount of \$847 per employee per week. It also includes, on the other hand, the reimbursement of employer contributions to employment insurance, the Canada Pension Plan, the Québec Pension Plan and the Québec Parental Insurance Plan that the qualifying entity must pay on wages to its eligible employees for the weeks they are on paid leave.

To be a qualifying entity, an employer must, for example, be an individual, a taxable corporation, a non-profit organization, a registered charity or a partnership that meets certain conditions with respect to its members. It must also have faced a drop in income.

⁵² See note 50.

⁵³ DEPARTMENT OF FINANCE CANADA, *Canada Emergency Wage Subsidy (CEWS)*, [online], [<https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy.html>].

The wage subsidy was initially granted for three qualifying periods, the first period beginning on March 15, 2020 and the last period ending on June 6, 2020. It was then extended, so that a qualifying entity could benefit from it until March 13, 2021.

On April 30, 2020, the Ministère des Finances du Québec announced the introduction of the credit on the employer contribution to the Health Services Fund in respect of employees on paid leave,⁵⁴ which complements the Canada Emergency Wage Subsidy.

Thus, an employer with an establishment in Québec that can, for a qualifying period, benefit from the Canada Emergency Wage Subsidy may also, in respect of this qualifying period, benefit from the credit on the employer contribution to the Health Services Fund. The contribution credit that such an employer may claim is the amount of the Health Services Fund contribution it pays in respect of the wages for a specified employee for a week included the qualifying period while the employee is on paid leave.

The credit on the employer contribution to the Health Services Fund is granted for the same qualifying periods as the Canada Emergency Wage Subsidy, with the first period beginning on March 15, 2020 and the last period ending on March 13, 2021.⁵⁵

On March 3, 2021, the Department of Finance Canada issued a press release setting out the terms and conditions of the Canada Emergency Wage Subsidy for three new periods: the period beginning March 14, 2021 and ending April 10, 2021, the period beginning April 11, 2021 and ending May 8, 2021 and the period beginning May 9, 2021 and ending June 5, 2021.⁵⁶

With this announcement, the federal government proposes to maintain the rate structure that applied to the period ended March 13, 2021 for the next three periods, that is, until June 5, 2021. As well, it proposes to maintain the reimbursement of employer contributions to employment insurance, the Canada Pension Plan, the Québec Pension Plan and the Québec Parental Insurance Plan for employees on paid leave.

⁵⁴ MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2020-7*, April 30, 2020.

⁵⁵ Idem, *Information Bulletin 2020-8*, May 29, 2020, pp. 3-4; Idem, *Information Bulletin 2020-11*, August 17, 2020, pp. 3-5; Idem, *Information Bulletin 2020-13*, November 12, 2020, pp. 3-4; Idem, *Information Bulletin 2020-15*, December 21, 2020, pp. 4-5.

⁵⁶ DEPARTMENT OF FINANCE CANADA, *Government Announces Wage and Rent Subsidy Amounts to Remain Unchanged Through to June*, [online], March 3, 2021, [\[https://www.canada.ca/en/departement-finance/news/2021/03/government-announces-wage-and-rent-subsidy-amounts-to-remain-unchanged-through-to-june.html\]](https://www.canada.ca/en/departement-finance/news/2021/03/government-announces-wage-and-rent-subsidy-amounts-to-remain-unchanged-through-to-june.html)

In order for an employer to benefit from the credit on the employer contribution to the Health Services Fund in respect of employees on paid leave for the same qualifying periods as those for which it can obtain the Canada Emergency Wage Subsidy, and to ensure that this credit continues to complement the reimbursement of employer contributions under the Canada Emergency Wage Subsidy, the credit on the employer contribution to the Health Services Fund will also be extended until June 5, 2021.

As a result, three new periods will be added to the qualifying periods for the credit on the employer contribution to the Health Services Fund, namely:

- the period beginning March 14, 2021 and ending April 10, 2021;
- the period beginning April 11, 2021 and ending May 8, 2021;
- the period beginning May 9, 2021 and ending June 5, 2021.

4.4 Amendments to the *Mining Tax Act* to introduce an allowance for the development of critical and strategic minerals and eliminate the sustainable development certification allowance

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.

An operator who, during the fiscal year, is not developing any mineral substance in reasonable commercial quantities; and during the fiscal year, is not associated with an entity that develops a mineral substance in reasonable commercial quantities in the fiscal year, is an eligible operator for that fiscal year for the purposes of the mining tax regime. Specific rules apply to such an operator, particularly with regard to determining its annual profit or calculating the refundable duties credit for losses.

Amendments will be made to the *Mining Tax Act* to introduce a new allowance for the development of critical and strategic minerals and to eliminate the sustainable development certification allowance.

4.4.1 Introduction of the allowance for the development of critical and strategic minerals

On October 29, 2020, the government unveiled the Québec Plan for the Development of Critical and Strategic Minerals 2020-2025.⁵⁷ The vision proposed in this plan is to make Québec a leader in the production and processing of critical and strategic minerals. One of its objectives is to promote the sustainable exploration and development of these minerals.

The development of critical and strategic minerals is generally longer than that of other minerals and often requires more work, studies and analysis of extraction, processing and transformation methods to identify the marketable substance.

To encourage the development of these minerals in Québec, the mining tax regime will be amended to introduce an allowance for the development of critical and strategic minerals.

The *Mining Tax Act* will be amended so that an eligible operator, for a fiscal year, for the purposes of the *Mining Tax Act*, may deduct from its annual profit, for that fiscal year, an amount in respect of the allowance for the development of critical and strategic minerals that does not exceed the lesser of:

- an amount equal to the operator's cumulative critical and strategic mineral development expenses at the end of the fiscal year;
- an amount equal to the balance of its ceiling on critical and strategic mineral development expenses at the end of the fiscal year.

□ Cumulative critical and strategic mineral development expenses

The amount of the cumulative critical and strategic mineral development expenses of an eligible operator at a particular time will be equal to the amount by which the total of the critical and strategic mineral development expenses incurred by the eligible operator before that time, but after the day of the budget speech, exceeds the total of the amounts deducted by the eligible operator in calculating its annual profit as an allowance for critical and strategic mineral development for a fiscal year ended before that time.

⁵⁷ QUÉBEC GOVERNMENT, *Québec Plan for the Development of Critical and Strategic Minerals 2020-2025*, [online], October 29, 2020, [https://cdn-contenu.quebec.ca/cdn-contenu/ressources-naturelles/Documents/PL_critical_strategic_minerals.pdf?1604003187.]

■ Critical and strategic mineral development expenses

Critical and strategic mineral development expenses will refer to expenses incurred by an eligible operator with a person with whom the eligible operator deals at arm's length⁵⁸ and which consist of an expense primarily attributable to one or more critical and strategic minerals relating to:

- bulk sampling, the purpose of which is to determine the effective grade, perform grinding tests and determine whether a separation process allows minimum quality specifications, in order to evaluate the optimal treatment processing method for the mineral substance;
- testing of ore and host rock stability/mechanical properties;
- tests on ore dilution;
- metallurgical grinding tests on core or bulk samples to determine ore quality or recovery rate;
- process engineering studies (detailed separation process flow sheets, schedules to bring the ore to marketable product stage);
- studies to determine the type of ore to be treated, the type of process to be used and the economic potential of the finished product;
- tests for hydrometallurgical and pyrometallurgical processes for the purpose of developing value-added products with regard to the ore.

Such expenses shall be incurred in respect of the period beginning immediately after the preliminary sampling and ending immediately before the time when it can reasonably be considered that the decision to bring a new mine for a mineral substance into production in reasonable commercial quantities has been made.

Expenses that relate to an old mine that has previously reached the reasonable commercial quantity production stage, that has been abandoned or that is in maintenance, and expenses that may qualify as exploration expenses, will not be eligible as critical and strategic mineral development expenses.

⁵⁸ Within the meaning of the *Taxation Act*.

■ Critical and strategic minerals

For the purposes of this new allowance, the “critical and strategic minerals” will refer to the minerals listed in the table below.

TABLE A.8

List of critical and strategic minerals

Critical minerals		Strategic minerals	
Antimony	Tin	Cobalt	Nickel
Bismuth	Gallium	Rare earth elements	Niobium
Cadmium	Indium	Platinum group elements	Scandium
Cesium	Tellurium	Graphite (natural)	Tantalium
Copper	Zinc	Lithium	Titanium
		Magnesium	Vanadium

■ Other terms and conditions

The treatment applicable to government assistance received, receivable or repaid related to the cumulative critical and strategic mineral development expenses will be the same as that applicable to such assistance for the calculation of cumulative pre-production development expenses.

Moreover, the provisions applicable to the other allowances will also apply to this allowance.⁵⁹

□ Balance of the ceiling on critical and strategic mineral development expenses

The ceiling on critical and strategic mineral development expenses for an eligible operator will be \$31.25 million.

Thus, the balance of the ceiling on critical and strategic mineral development expenses for an eligible operator at a particular time will be equal to the amount by which \$31.25 million exceeds the following totals:

- total of amounts each of which is an amount deducted by the eligible operator in calculating its annual profit for a fiscal year that ends before that time as an allowance for the development of critical and strategic minerals;

⁵⁹ *Mining Tax Act*, ss. 16.14 to 16.17.

- total of amounts each of which is an amount of government assistance that relates to the eligible operator's critical and strategic mineral development expenses that the eligible operator received or is entitled to receive before that time, but after the day of the budget speech, and that has not been reimbursed by the operator at or before that time.

□ Refundable duties credit for losses

An operator that sustains an annual loss rather than making an annual profit for a fiscal year may benefit from, 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;
- 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 the 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 allowance for environmental studies,
 - 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,
 - 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 allowance for the development of critical and strategic minerals.

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;

- 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 the 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 consultation,
 - 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 allowance for environmental studies,
 - 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,
 - if the operator is an eligible operator, for the fiscal year, the following amounts:
 - 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, and
 - the amount corresponding to the critical and strategic mineral development expenses it incurred for the fiscal year but after the day of the budget speech, without exceeding the amount it deducted for the fiscal year on account of the allowance for the development of critical and strategic minerals.

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 amendments will apply to critical and strategic mineral development expenses incurred by an eligible operator after the day of the budget speech.

4.4.2 Elimination of the sustainable development certification allowance

As part of the budget speech of March 2019,⁶⁰ a sustainable development certification allowance was introduced in the mining tax regime to encourage mining operators to take steps toward adopting best environmental, social and economic practices.

Briefly, 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.

The sustainable development certification expenses of an operator mean the fees required by the organization responsible for certification in relation to 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.

To encourage more responsible mining exploration, the government plans to implement a new program that will provide financial support to exploration businesses and their specialized service providers in their certification and performance improvement initiatives for sustainable development.

Given the implementation of this program, the sustainable development certification allowance will be eliminated.

Correlative amendments will be made to the refundable duties credit for losses.

■ Application date

This amendment will apply in respect of sustainable development certification expenses incurred after December 31, 2021.

4.5 Measures concerning trusts

Trusts are used in tax planning, in Québec and elsewhere.

To validate their compliance and that of their main players with tax laws, various changes will be made to tax legislation and regulations.

⁶⁰ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2019-2020 – Additional Information*, March 21, 2019, pp. A.19-A.22.

❑ Harmonization with the Department of Finance Canada's July 27, 2018 news release

In conjunction with the 2018 Federal Budget, the Department of Finance Canada announced its intention to improve the collection of beneficial ownership information with respect to trusts.⁶¹

On July 10, 2018, the Ministère des Finances du Québec stated that it would announce its position on this matter at a later date.⁶²

On July 27, 2018, the Department of Finance Canada released⁶³ draft tax legislative proposals to improve the collection of beneficial ownership information with respect to trusts. To achieve this objective, it is proposed that certain trusts be required to provide additional information on an annual basis, that certain trusts be required to file a tax return in cases where there is no such obligation at this time, and that a penalty be added, particularly in some events of non-filing.

These new measures are expected to apply to taxation years of trusts ending after December 30, 2021.

Given that, with certain exceptions,⁶⁴ the Québec tax system is harmonized with the federal tax system with respect to the obligation to file a tax return and provide certain information on trusts, Québec tax legislation and regulations will be amended to incorporate the changes made to the federal tax legislation and regulations relating to trusts, in accordance with their general principles, that were released on July 27, 2018, subject to the following.

⁶¹ DEPARTMENT OF FINANCE CANADA, *Tax Measures: Supplementary Information*, February 27, 2018. [2018 budget companion document].

⁶² MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2018-6*, July 10, 2018, pp. 3-5.

⁶³ DEPARTMENT OF FINANCE CANADA, *News Release 2018-065 – Department of Finance Canada Consulting Canadians on Draft Tax Legislative Proposals*, [online], July 27, 2018, [<https://www.canada.ca/en/department-finance/news/2018/08/department-of-finance-canada-consulting-canadians-on-draft-tax-legislative-proposals.html>].

⁶⁴ In the budget speech on March 20, 2012 and the budget speech on November 20, 2012, amendments to the tax legislation were announced to add situations where a trust subject to Québec taxation is required to file a tax return, particularly when a trust has deducted, in calculating its income for the taxation year, an amount allocated to a beneficiary, regardless of the place of residence of the beneficiary. See: MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, pp. 104-106; MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Budget 2013-2014 – Budget Plan*, November 20, 2012, pp. H.46-H.49.

In this regard, legislative proposals for the new penalty will be retained, except for the amount of the penalty.⁶⁵ Instead, the person or partnership concerned will incur, for the purposes of the Québec tax system, a penalty equal to \$1,000 and an additional penalty of \$100 per day, calculated as of the second day that the omission or default lasts, up to a maximum of \$5,000.⁶⁶ For greater clarity, existing penalties will continue to apply.

Lastly, the changes made to the Québec tax system will be adopted only following assent to any federal statute or adoption of any federal regulation implementing the legislative proposals retained, taking into account technical amendments that may be made prior to assent or adoption, as the case may be. Moreover, these changes will apply on the same dates as those retained for the purposes of the federal measures with which they harmonize.

☐ Change in the requirement for a trust to file an information return

In the budget speech of November 20, 2012,⁶⁷ changes to the tax regulations were announced such that a trust, other than an excluded trust, that, during a taxation year, is resident in Canada outside Québec and that, at any time in the taxation year, owns a specified immovable,⁶⁸ or is a member of a partnership that owns a specified immovable,⁶⁹ is required to file, for such taxation year, an information return with Revenu Québec.

“Excluded trust” for a taxation year means, but is not limited to, the following trusts:

- a succession;
- a testamentary trust resident in Québec on the last day of the year and that owns property the aggregate of the cost amounts of which is, throughout the year, less than \$1 000 000;
- a testamentary trust not resident in Québec on the last day of the year and that owns property situated in Québec the aggregate of the cost amounts of which is, throughout the year, less than \$1 000 000.

⁶⁵ DEPARTMENT OF FINANCE CANADA, *Legislative Proposals Relating to Income Tax and Other Legislation and Explanatory Notes*, [companion document to the *News Release 2018-065*], s. 8, in part.

⁶⁶ The penalty under Québec’s tax system mentioned above will replace the penalty equal to the greater of \$2 500 or 5% of the fair market value of the property held by the trust, proposed for the purposes of the federal tax system.

⁶⁷ MINISTÈRE DES FINANCES ET DE L’ÉCONOMIE DU QUÉBEC, *Budget 2013-2014 – Budget Plan*, November 20, 2012, pp. H.46-H.49.

⁶⁸ The expression “specified immovable” means an immovable property situated in Québec that is used principally for the purpose of earning or producing gross revenue that is rent.

⁶⁹ For greater clarity, this measure also applies to a trust that is a member of a partnership that is itself a member, directly or indirectly, through one or more partnerships, of a partnership that owns a specified immovable.

To allow Revenu Québec to have a more complete picture of the trusts that hold a rental property in Québec, changes will be made to Québec's tax regulations regarding the expression "excluded trust." Thus, a testamentary trust will no longer be an excluded trust. The same will apply to a succession, with the exception of a succession that is a graduated rate estate.⁷⁰

These amendments to Québec tax regulations will apply to taxation years that end after December 30, 2021.

❑ Addition of a requirement to provide a trust's tax identification number

A tax identification number is assigned to trusts that file a return in Québec. This tax identification number appears on notices of assessment issued to trusts by the Minister of Revenue.

To facilitate the identification of trusts for the purposes of the Québec tax system, the tax legislation will be amended to add a trust's tax identification number as mandatory identification information. The "tax identification number of a trust" will mean the number used by the Minister of Revenue to identify the trust and which has been communicated by the Minister of Revenue to the trust.

Thus, a trust will have to obtain its tax identification number from the Minister of Revenue if it does not have one. In addition, it will have to indicate its tax identification number in any return, report or other document it must file under a tax law.

This amendment will apply to any return, report or other document required to be filed under a tax law after the day of the budget speech.

❑ Addition of requirement to provide the trust account number

On December 13, 2017, the Department of Finance Canada released draft legislative proposals to amend the *Income Tax Act* and the *Income Tax Regulations*,⁷¹ including the introduction of a requirement to report a trust's tax account number.

⁷⁰ *Taxation Act*, s. 646.0.1.

⁷¹ DEPARTMENT OF FINANCE CANADA, *News Release 2017-124 – Government Simplifies Measures to Restrict Income Sprinkling* [online], December 13, 2017, [https://www.canada.ca/en/department-finance/news/2017/12/government_simplifiesmeasurestorestrictincomesprinkling.html].

When the March 2018 Québec Economic Plan⁷² was released, it was announced that the Minister of Revenue could require the disclosure of the trust account number, within the meaning of federal tax legislation, after assent to any federal legislation following the introduction of the trust account number.

On June 21, 2018, Bill C-74, *Budget Implementation Act, 2018, No. 1*, which included the legislative proposals of December 13, 2017 regarding the trust account number, was assented to.⁷³

To allow for better identification of trusts for the purposes of the Québec tax system, the tax legislation will be amended to add the trust account number, as defined in federal tax legislation, as mandatory identification information.

Thus, a trust will have to indicate its trust account number, as defined in federal tax legislation, in any return, report or other document it must file under a Québec tax law once that number has been assigned to it by the Minister of National Revenue.

This amendment will apply to any return, report or other document required to be filed under a tax law after the day of the budget speech.

4.6 Autonomous application of the penalty for promoters of aggressive tax planning

On November 10, 2017, the Ministère des Finances announced⁷⁴ a substantial increase to the penalties applicable to aggressive tax planning where an assessment based on the general anti-avoidance rule (GAAR) is issued. Thus, the tax legislation provides for the following penalties:

- a penalty equal to 50% of the amount of the tax benefit denied as a result of a GAAR-based assessment. This penalty applies to the taxpayer being assessed;
- a penalty equal to 100% of the amount of the promoter's fees related to the avoidance transaction to which GAAR applied where the taxpayer being assessed is liable for the 50% penalty described above in respect of the amount of the tax benefit denied.

The promoter's penalty is therefore dependent on the penalty incurred by the taxpayer being assessed under GAAR.

⁷² MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, pp. A.131-A.132.

⁷³ S.C. 2018, c. 12.

⁷⁴ MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2017-10*, November 10, 2017, p. 2.

Considering the complexity of the schemes in respect of which GAAR-based assessments are issued, the tax legislation will be amended so that the penalty applicable to a promoter of a transaction or series of transactions that includes the transaction reviewed under GAAR will apply autonomously, regardless of whether there is a penalty applied beforehand on the taxpayer who is subject to the GAAR-based assessment.

However, for greater clarity, the penalty will only be applied to a promoter once the Minister of Revenue has established a GAAR-based assessment against a taxpayer.

The autonomous application of this penalty will make promoters who market or promote such schemes liable, since they are better positioned than the taxpayer to evaluate the underlying risks.

Application date

This amendment will apply as of the date the bill giving effect thereto is assented to.

Section B

PLAN TO ENSURE TAX FAIRNESS

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1. CONTINUING THE ACTION PLAN

In the current context of the global pandemic, Québec's economy and public finances have been greatly affected. In order to fully support the economic recovery, it is essential to efficiently collect the tax revenue owed to the Québec government.

The government is therefore reaffirming its commitment to continue its Tax Fairness Action Plan, which is the government strategy put in place to preserve the integrity of the tax system and to fight tax evasion¹ and tax avoidance.²

New initiatives are planned in Budget 2021-2022 to bolster the Tax Fairness Action Plan and enable a smooth and fair transition to Québec's new economy.

As part of Budget 2021-2022, the government plans to invest \$77.5 million to:

- continue the Tax Fairness Action Plan;
- ensure information security at Revenu Québec.

These initiatives are expected to generate \$810.5 million in additional revenue over five years.

TABLE B.1

Financial impact of Tax Fairness Action Plan initiatives (millions of dollars)

	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	Total
Continuing to implement the Tax Fairness Action Plan	-11.4	-12.1	-12.5	-13.0	-14.0	-63.0
Ensuring information security at Revenu Québec	-2.9	-2.9	-2.9	-2.9	-2.9	-14.5
Subtotal	-14.3	-15.0	-15.4	-15.9	-16.9	-77.5
Revenues generated by the initiatives in the Tax Fairness Action Plan	97.6	143.8	165.0	188.3	215.8	810.5
TOTAL	83.3	128.8	149.6	172.4	198.9	733.0

¹ Tax evasion is defined as all illegal steps that consist in non-reporting of legal income, concealment of illegal income or failure to obey tax rules.

² Tax avoidance corresponds to interpretations of the law that border on the illegal. The use of such procedures does not violate any particular legal rule, but it does not comply with the spirit of the law.

1.1 Ensuring collection of the QST in the context of the digital economy

A growing number of Quebecers are making purchases online. It is therefore important to ensure that all properties and services purchased by Quebecers for local consumption are taxed in the same way, regardless of their origin. It is a matter of fairness to Québec merchants.

In the Tax Fairness Action Plan, the Québec government had indicated its intention to act on three fronts:

- require QST to be collected on services and incorporeal property sold from abroad by businesses that do not have a physical or significant presence³ in Québec;
- require Canadian suppliers of properties and services that do not have a physical or significant presence in Québec to register with the QST system, collect the tax and remit it according to special rules;
- support the Canada Border Services Agency (CBSA) to ensure collection of the QST on corporeal property from abroad and sold by businesses without a physical or significant presence in Québec.

The action taken by Québec on the first two fronts have produced results.

- Foreign suppliers of services and incorporeal property have been required to collect QST since January 1, 2019. To date, more than 150 businesses have complied with this requirement. As at December 31, 2020, a total of \$215 million in QST had been remitted to Revenu Québec.
- Canadian suppliers without a physical or significant presence in Québec that sell to Québec consumers have been required to collect QST since September 1, 2019. To date, nearly 670 enterprises have registered. As at December 31, 2020, some \$40 million in QST had been remitted.

The results of tax collection efforts on corporeal property from outside Canada are more mixed. As a reminder, an existing agreement stipulates that the CBSA is responsible for collecting, on behalf of the Québec government, the QST applicable to non-commercial imports of properties to Québec, that is, to properties imported by Québec consumers.

Studies conducted a few years ago showed that the QST and GST/HST were charged only on a fraction of such imported properties.

³ In general terms, significant presence has been defined as operating a business in Québec.

To remedy the situation, Revenu Québec, the Canada Revenue Agency and the CBSA collaborated on a one-year pilot project to increase the number of employees processing parcels at the Canada Post sorting centre in Montréal.

This pilot project ended in October 2019 and did not produce the expected results. An analysis of the results showed that the flow of parcels was much lower than anticipated. In fact, total QST remittances by the CBSA decreased in 2019.

The decrease in the number of parcels processed as non-commercial imports can be explained by changes in the business model of large online businesses.

- The fact is that many properties purchased from foreign suppliers through digital platforms now enter Canada as commercial imports and are then delivered from warehouses in the country.
- This business model therefore allows properties to be delivered to consumers within days of the purchase rather than weeks later.

Under current tax rules, neither the foreign supplier nor the digital platform is responsible for collecting the QST or GST/HST on these transactions.

This unfair situation must be corrected both where the QST and the GST/HST are concerned.

On November 30, 2020, the federal government announced, through legislative proposals, adjustments to adapt the GST/HST tax system to the reality of e-commerce. Consequently, as of July 1, 2021:

- as is already the case with Québec's QST system, the GST/HST must be collected and remitted on services and intangible property provided to Canadian consumers by non-resident suppliers that are not carrying on business in Canada or digital platforms through which these suppliers make such supplies;
- the GST/HST must be collected and remitted on tangible personal property provided through fulfillment warehouses in Canada;
- the GST/HST must be collected and remitted on all platform-based short-term accommodation in Canada.

The Québec government will harmonize the QST system with the federal announcements concerning fulfillment warehouses and short-term accommodation as of the same date, July 1, 2021.

TABLE B.2

Financial impact of collecting the QST in the context of the digital economy
(millions of dollars)

	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	Total
Properties provided through fulfillment warehouses	83.0	120.3	137.7	157.4	181.3	679.7
Platform-based short-term accommodation	14.6	23.5	27.3	30.9	34.5	130.8
TOTAL	97.6	143.8	165.0	188.3	215.8	810.5

Taxation of large digital businesses – Approach proposed by the Organisation for Economic Co-operation and Development –

In 2019, as part of its Action Plan on Base Erosion and Profit Shifting (BEPS),¹ the Organisation for Economic Co-operation and Development (OECD) submitted its program of work to develop a consensus solution to the tax challenges arising from the digital economy.

To speed up the work, the OECD had planned intensive work sessions in spring 2020 in the hopes of reaching a formal agreement in July 2020. However, due to the COVID-19 crisis and the reluctance expressed by the United States, this deadline was postponed.

In the absence of such an agreement, some countries have implemented specific taxes applicable to multinational digital corporations. These unilateral measures were intended to speed up the search for consensus. Because the United States has recently shown some openness, there is reason to believe that there will be a formal agreement between the participating countries in 2021.

Canada's position

In her Fall Economic Statement 2020,² Canada's Minister of Finance stated that, failing an agreement at the OECD in 2021, the federal government would apply a tax on corporations providing digital services. She mentioned that this tax would become effective January 1, 2022 and apply until such time as an acceptable common approach is found.

The document mentioned that the Government of Canada will continue working with its international partners in a process led by the OECD with a view to developing a multilateral solution by mid-2021.

Québec's position

Québec has always supported the search for a coordinated international solution for the taxation of large multinationals and it will integrate the new rules into its tax system as soon as a consensus is reached.

However, if the multilateral negotiations fail or are further delayed and Canada implements a temporary tax on the revenue of digital corporations, it is essential that the tax revenue be subject to a sharing agreement with the provinces and territories.

The fact is that the current erosion of the corporations' tax base affects both the revenue of the federal government as well as those of the provinces and territories.

1 The purpose of this project is to review the international tax rules that apply in a context of global trade. It addresses the loopholes used by multinationals to legally, but artificially, shift profits to countries with low or no taxes.

2 DEPARTMENT OF FINANCE CANADA, *Fall Economic Statement 2020: Supporting Canadians and Fighting COVID-19*, November 30, 2020 p. 131.

1.2 Changing the penalties for promoters of aggressive tax planning

In recent years, the government has increased the penalties imposed by Revenu Québec on aggressive tax planning. These penalties apply to both taxpayers who have implemented abusive tax avoidance schemes and promoters who market or encourage their use.

However, promoters of aggressive tax planning can only incur penalties in cases where a penalty is imposed on the taxpayer-client as a result of measures applied to combat abusive tax avoidance transactions.

In order to make promoters who market such schemes more accountable, the government will amend the tax legislation so that the penalties apply to them regardless of whether a penalty was first imposed on the taxpayer.

Mandatory disclosures

Since 2009, various measures aimed at countering aggressive tax planning have been announced by the government, including a mandatory disclosure mechanism for certain transactions. This mechanism allows Revenu Québec to identify certain transactions with a high risk of non-compliance with the object and spirit of tax legislation.

Essentially, the mandatory disclosure mechanism provides that when a taxpayer carries out a transaction covered by tax legislation and that gives rise to a significant tax benefit, it must be disclosed to Revenu Québec.

In March 2021, pursuant to a regulation published in the Gazette officielle du Québec, Revenu Québec announced four new types of transactions that will now have to be disclosed:

Avoidance of the deemed disposition rule for property held in a trust

To prevent postponement of tax on capital gains accrued on property in a trust, tax legislation provides that the property is deemed to be disposed of every period of 21 years.

Despite a tax policy prohibiting the avoidance of such a deemed disposition, planning strategies are used to exempt property from taxation with the possible result that the tax payable on the accrued gain is postponed indefinitely.

Thus, a transaction will have to be disclosed, when, for example, a corporation will be the beneficiary of a first trust, the shareholder of the corporation will be another trust and property will be transferred by the first trust in favour of the corporation, without immediate tax consequences, so as to postpone the taxation of the capital gain resulting from the deemed disposition of such property.

Mandatory disclosures (cont.)**Payment to businesses in countries not covered by a tax agreement**

Under tax legislation, Québec subsidiaries of foreign companies can deduct from their revenue certain payments made to other group entities located outside Canada. Although usually justified, these payments can sometimes be used to reduce the tax payable in Québec in an abusive manner.

Thus, the mandatory disclosure applies to a transaction where a subsidiary in Québec increases its expenses in Québec by making payments (e.g. royalties, interest or management fees) to other group entities in countries without a tax agreement with Canada.

Multiplication of the capital gains deduction

Tax legislation provides for a capital gains deduction (CGD) for taxpayers who realize a gain from the disposition of qualified small business corporation shares. Some tax planning seeks to multiply the CGD.

Transactions that have to be disclosed are, in particular, those involving tax planning that seeks to multiply the CGD while providing for the return of all or part of the amount obtained after disposition of the shares to the majority shareholder.

Tax attribute trading

Tax legislation provides rules limiting the use of certain tax attributes (e.g. operating losses or unclaimed tax credits) following the acquisition of control of a corporation. While trading tax attributes is prohibited in some situations, planning strategies are used to circumvent the rules.

Thus, disclosure will be mandatory, in particular, where tax planning allows the tax attributes of a target company to be used by another company that contributes to the share capital of the target company with the aim of operating a new business.

1.3 Improving trust oversight

Trusts are used in tax planning in Québec and elsewhere.

To ensure that trusts and their principal actors comply with tax laws, various changes to the Québec tax system are being announced.

Thus, certain trusts will be required to provide additional information annually mainly about their beneficiaries and trustees. Also, more trusts will have to file income tax returns whether or not they owe tax.

Changes are also being announced with respect to trusts resident in Canada but outside Québec that hold rental property in Québec. The purpose of these changes is to require more trusts to file an information return.

Finally, a new requirement is being introduced concerning the trust identification number, issued by Revenu Québec, and the trust account number, issued by the Canada Revenue Agency. This information will form part of a trust's mandatory identification information and will therefore have to be provided on any declaration, report or other document to be produced under Québec tax law.

1.4 Supporting Revenu Québec's new tax audit initiatives

To ensure it collects all the tax revenue to which it is entitled, the government will introduce new tax audit initiatives and step up its audits in sectors considered at high risk for tax evasion and avoidance.

Revenu Québec will receive \$50 million in funding over five years for this purpose.

1.5 Increasing efforts to combat alcohol smuggling

New schemes have been recently discovered involving the illicit sale of alcoholic beverages. These can have negative effects on the health of the population and on government revenues.

To thwart these new schemes and protect the health of Quebecers, the Sûreté du Québec will set up a new investigative team to combat alcohol smuggling. The addition of this team means greater investigative capabilities to combat the illicit sale of alcoholic beverages.

The government is providing an additional \$5 million, or \$1 million per year, as of 2021-2022 for this purpose.

Alcohol smuggling investigation in Nunavik

In 2020, the Sûreté du Québec, in collaboration with Revenu Québec, the Société des alcools du Québec, Canada Post and the Kativik Regional Police Force, completed the PLUTONIUM investigation, which led to the dismantling of a network illegally selling alcohol and drugs in Nord-du-Québec.

This operation shed light on a common practice of alcohol dealers in Nord-du-Québec, which is to charge vulnerable consumers prices that are 8 to 12 times higher than elsewhere in Québec. This resale contributes to the devastating social impact of excessive alcohol consumption. A strong police presence must therefore be maintained to fight the illicit alcohol trade in this region.

1.6 **Assisting businesses following the reform of the Registraire des entreprises du Québec**

As announced in Budget 2020-2021, a bill aimed at improving the transparency of enterprises was tabled in the National Assembly on December 8, 2020.

By adopting this bill, the government hopes to better protect citizens in their socioeconomic dealings and prevent and combat tax evasion, tax avoidance, money laundering and corruption.

The government is announcing an investment of \$8 million over five years so that the Registraire des entreprises du Québec can:

- help businesses comply with their new obligations;
- scale up its oversight, compliance, quality, inspection and investigation functions;
- put in place a technological solution to ensure data reliability and improve the efficiency of information sharing.

An act mainly to improve the transparency of enterprises

On December 8, 2020, the government tabled Bill 78, *An act mainly to improve the transparency of enterprises*. This bill stipulates the following, among other things:

- that businesses operating in Québec must declare to the Registraire des entreprises information about their ultimate beneficiaries;
- that a person's name can be used for the purposes of a search in the enterprise register.

The tabling of this bill marks a new phase in the work on corporate transparency, which began in 2017 with the Tax Fairness Action Plan.

Since then, the government has put in place measures that have made it possible to increase corporate transparency and improve the quality of information declared in the enterprise register.

In addition to informing the citizens with whom they do business, these initiatives make it possible to fight more effectively against tax evasion and abusive tax avoidance, money laundering and the financing of criminal activities.

TABLE B.3

Financial impact of the Tax Fairness Action Plan
 (millions of dollars)

	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	Total
Ensuring collection of the QST in the context of the digital economy						
Properties provided through fulfillment warehouses	83.0	120.3	137.7	157.4	181.3	679.7
Platform-based short-term accommodation	14.6	23.5	27.3	30.9	34.5	130.8
Subtotal – Collecting the QST in the context of the digital economy	97.6	143.8	165.0	188.3	215.8	810.5
Supporting Revenu Québec's new tax audit initiatives ⁽¹⁾	-10.0	-10.0	-10.0	-10.0	-10.0	-50.0
Increasing efforts to combat alcohol smuggling ^{(2),(3)}	-1.0	-1.0	-1.0	-1.0	-1.0	-5.0
Assisting businesses following the reform of the Registraire des entreprises du Québec ^{(2),(4)}	-0.4	-1.1	-1.5	-2.0	-3.0	-8.0
TOTAL	86.2	131.7	152.5	175.3	201.8	747.5

(1) The amounts will be drawn from the Tax Administration Fund.

(2) The amounts for 2021-2022 will be drawn from the Contingency Fund.

(3) 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.

(4) Appropriations will be granted to the Ministère du Travail, de l'Emploi et de la Solidarité sociale.

2. ENSURING INFORMATION SECURITY AT REVENU QUÉBEC

The emergence of new technologies has led to a growing number of cyber attacks and cases of identity fraud. Revenu Québec is making a concerted effort and constantly adapting its practices to deal with this reality. Revenu Québec must therefore ensure it has the necessary resources to protect taxpayers' sensitive information and support them when they are victims of fraud.

2.1 Enhancing cybersecurity

In recent years, many organizations have been victimized by cyber attacks aimed at obtaining sensitive information. These attacks are increasingly sophisticated and often have far-reaching consequences for the individuals and entities affected.

Given the nature and large volume of data held by Revenu Québec, cyber attacks pose a risk to the organization. Revenu Québec is therefore constantly working to improve its control measures in order to thwart potential attacks.

As part of Budget 2021-2022, the government is providing \$5 million over five years to allow Revenu Québec to continue its action plan aimed at stepping up its efforts to prevent cyber attacks. Under this plan, additional security measures are being put in place to better protect taxpayer data.

2.2 Improving the ability to detect and combat identity fraud

Identity fraud has a very negative impact on the victims. Perpetrators can use false or stolen identities for fraudulent financial gain.

Some schemes can target Revenu Québec activities. In this regard, protection measures are already in place. However, additional resources will help address the recent increase in this type of crime by:

- increasing efforts to monitor, detect and prevent identity fraud;
- increasing the security of files targeted by identity theft;
- intensifying investigation and inspection efforts in this area.

To that end, in Budget 2021-2022, the government is increasing the funding granted to Revenu Québec by \$9.5 million over five years.

TABLE B.4

Financial impact of information security initiatives at Revenu Québec (millions of dollars)

	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	Total
Enhancing cybersecurity ⁽¹⁾	-1.0	-1.0	-1.0	-1.0	-1.0	-5.0
Improving the ability to detect and combat identity fraud ⁽¹⁾	-1.9	-1.9	-1.9	-1.9	-1.9	-9.5
TOTAL	-2.9	-2.9	-2.9	-2.9	-2.9	-14.5

(1) The amounts will be drawn from the Tax Administration Fund.

3. FOLLOW-UP ON ACTIONS TAKEN TO COMBAT TAX EVASION AND FRAUD AGAINST THE GOVERNMENT

The government has implemented various initiatives to promote the integrity of the tax system, foster healthy competition, and combat fraud against the government.

In 2020-2021, the government funded concerted actions to fight against:

- unreported work in the construction sector;
- tobacco, cannabis and alcohol smuggling;
- economic and financial crimes and fraud against the government.

Despite the public health crisis, the fight against tax evasion and fraud against the government continued. In some cases, the partners had to adapt their work, inspection and investigation methods in order to respect the health measures put in place.

The advantages of concerted actions to combat tax evasion and fraud against the government

Various committees and projects implemented by the government have been effective in combatting tax evasion and fraud against the government. This is largely due to the concerted efforts of the partners involved.

These partners benefit from the expertise of other committee members, which varies according to their assigned roles, responsibilities and powers.

In addition, their coordinated work enables them to:

- establish policy directions in the fight against crime and offences;
- identify key areas for investigative unit interventions;
- analyze the legal aspects of investigations and propose legislative amendments as needed;
- improve information sharing among the various partners;
- help develop and improve the training offered to other partners.

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

The construction industry is a key part of Québec's economy and essential to its recovery. In order to build the Québec economy of tomorrow in a healthy and fair environment, the government must continue to combat tax evasion, unreported work and non-compliance with other legal obligations in this sector.

The ACCES⁴ construction⁵ committee consists of departments and bodies that work to ensure greater compliance in the construction sector. The committee thus makes it possible to carry out joint efforts and facilitate the exchange of information between the parties.

In 2019-2020, the actions of the ACCES construction committee yielded a return of \$188 million.

Example of an intervention by ACCES construction

The Commission de la construction du Québec (CCQ) visits more than 40 000 construction sites per year, in some cases, because of information reported by the committee's other partners.

As part of its inspection activities in 2020-2021, the CCQ investigated a large property manager with many rental properties in the Montréal region. The CCQ deployed all its tactical units to buildings in the process of being renovated by the manager.

The CCQ carried out 13 investigations of general contractors and some of their subcontractors in connection with this manager, uncovering close to 30 000 hours not reported to the CCQ and leading to a claim of more than \$500 000.

The files of 12 unlicensed subcontractors were transferred to the Régie du bâtiment du Québec and eight reports for irregularities involving missing tax numbers were sent to Revenu Québec.

Source: Commission de la construction du Québec.

⁴ Concerted actions to counter the underground economy.

⁵ The members of ACCES construction are 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 Director of Criminal and Penal Prosecutions, and the Ministère des Finances du Québec.

3.2 The fight against smuggling

Smuggling activities are the result of, among other things, the illegal production, transportation and sale of goods on the black market in order to avoid paying the applicable taxes.

To counter this practice, the government has set up various concerted action committees in high-risk sectors comprising the police forces and government departments and bodies involved in the fight against tobacco, cannabis and alcohol smuggling.

❑ **The fight against the illicit tobacco trade (ACCES tobacco)**

The partners of the ACCES tobacco committee⁶ work to dismantle smuggling networks and recover the tax losses linked to the illicit trade in tobacco, which increases the revenue from the tax on tobacco products.

The concerted actions of the ACCES tobacco partners help:

- 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 police strategies to the schemes used by smugglers;
- improve information sharing between the different partners.

In 2019-2020, the actions of the ACCES tobacco committee yielded a return of \$194 million.

Examples of interventions by ACCES tobacco

Investigation conducted by the Sûreté du Québec

As part of its interventions on the smuggling route serving Est-du-Québec to Gaspésie, the Sûreté du Québec conducted an investigation leading to two raids.

During these raids, the police seized 250 000 cigarettes, cash and methamphetamine pills.

Investigation conducted by the Service de police de la Ville de Montréal

An investigation launched in May 2020 by the Service de police de la Ville de Montréal targeted a network selling smuggled cigarettes on the Montréal and Saint-Jérôme markets.

Three raids were conducted, leading to the seizure of 25 400 cigarettes, 3 600 grams of cannabis, nearly 400 methamphetamine pills and more than 15 grams of cocaine.

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

⁶ The members of ACCES tobacco are the Sûreté du Québec, the Service de police de la Ville de Montréal, other Québec police forces, the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Director of Criminal and Penal Prosecutions, 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.

❑ **The fight against the illicit cannabis trade (ACCES cannabis)**

Set up in 2018, the ACCES cannabis committee⁷ combats the illegal production of and illicit trade in cannabis.

The actions of the ACCES cannabis partners help combat the schemes used by smugglers and put an end to their operations by conducting investigations.

The government's approach to the legalization of cannabis

The rollout of new Société québécoise du cannabis outlets, the efficiency of the online sales platform and the actions of ACCES cannabis are helping cannabis consumers transition to a safer, legal market.

In 2020-2021, the Ministère des Finances estimates that the Société québécoise du cannabis captured 52% of the cannabis market. Factoring in the sale of medical marijuana, the total share of the legal cannabis market would reach 55%. This market capture rate has been growing steadily since 2018. These positive results confirm that the government's approach is working.

Sources: Société québécoise du cannabis and the Ministère des Finances du Québec.

The funding granted to the ACCES cannabis committee is used to deploy investigative teams across Québec and to coordinate law enforcement activities between police forces and the other committee partners.

Example of an intervention by ACCES cannabis

The Sûreté du Québec's QUASSIER project targeted a network of illegal cannabis production whose scheme involved using a fake name system to obtain registration certificates from Health Canada to produce medical marijuana.

The network of traffickers owned several buildings used for cannabis cultivation and psilocybin (magic mushroom) production.

Conducted in Montréal, Laval and Lanaudière, the investigation led to 15 arrests and put an end to their activities.

The raids led to a seizure of more than 32 000 grams of cannabis, 1 290 cannabis plants, other drugs, about 20 firearms, and close to \$1 million.

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

⁷ The members of ACCES cannabis are the Sûreté du Québec, the Service de police de la Ville de Montréal, the Service de police de la Ville de Québec, Québec's other 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 Director of Criminal and Penal Prosecutions, the Ministère de la Santé et des Services sociaux, the Société québécoise du cannabis, and the Ministère des Finances du Québec.

❑ **The fight against the illicit sale of alcoholic beverages (ACCES alcohol)**

The ACCES alcohol committee⁸ allows for targeted actions to combat the illicit sale and illegal procurement of alcoholic beverages.

Carried out by Québec's various police forces, these actions are broken down into two main types of intervention:

- inspections of establishments holding a liquor permit for consumption on premises in order to detect potential offences involving the sale of alcoholic beverages;
- investigations aimed at detecting schemes for the illicit production, distribution and sale of alcoholic beverages.

These interventions targeting all levels of the supply chain help ensure public safety, reduce revenue losses for the government, and encourage healthy competition in the alcoholic beverage industry.

In 2019-2020, the actions of the ACCES alcohol committee yielded a return of \$99 million.

Examples of interventions by ACCES alcohol

Investigation conducted by the Sûreté du Québec

Thanks to a complaint received by the Régie des alcools, des courses et des jeux, an investigation by the Sûreté du Québec led to the end of unlicensed spirits production on a farm in the Senneville region.

More than 10 600 litres of wines and spirits in bottles, barrels and vats were seized and two people were arrested.

Investigation conducted by the Service de police de la Ville de Montréal

In August 2020, the Service de police de la Ville de Montréal dismantled an underground bar operating in an industrial area of Montréal. When they raided the premises, law enforcement also found dozens of people disregarding public health measures for COVID-19, thereby increasing the risk of spreading the virus.

The raid resulted in the seizure of 115 bottles of alcohol, a handgun and more than \$6 500. Dozens of charges were laid under the *Act respecting offences relating to alcoholic beverages*.

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

⁸ The members of ACCES alcool are the Sûreté du Québec, the Service de police de la Ville de Montréal, Québec's other 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 Director of Criminal and Penal Prosecutions, the Régie des alcools, des courses et des jeux, the Société des alcools du Québec, and the Ministère des Finances du Québec.

3.3 The fight against economic and financial crime and fraud against the government

Investigations into economic and financial crime, fraud against the government and organized networks of unreported work are complex and require high-level expertise.

To conduct these investigations, the government relies on the concerted actions of the partners of the ACCEF⁹ committee and the Forum contre la fraude envers l'État.¹⁰ These partners pool their complementary expertise to more effectively fight against this type of crime.

In 2019-2020, the actions of the ACCEF committee and partners involved in combatting fraud against the government, which are funded by the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government (Provision), yielded a return of \$31.3 million.

⁹ Actions concertées contre les crimes économiques et financiers (concerted actions against economic and financial crime). The members of this committee are the Sûreté du Québec, the Service de police de la Ville de Montréal, the Ministère de la Sécurité publique, Revenu Québec, the Director of Criminal and Penal Prosecutions, the Autorité des marchés financiers, and the Ministère des Finances du Québec.

¹⁰ Coordinated by the Ministère de la Sécurité publique, the forum consists of more than 10 departments and bodies involved in fighting fraud against the government.

❑ The fight against economic and financial crime (ACCEF)

The ACCEF committee's mission is to improve the circulation of information among the main partners and detect and repress organized economic and financial crime.

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.

Example of an intervention by ACCEF

The PROSPECTEUR investigation conducted by the Service de police de la Ville de Montréal put an end to money laundering and tax fraud schemes in the gold trading and processing sector.

The criminal group was buying pure gold, adding alloys to make it impure and then reselling it to a refinery. The criminals collected taxes without remitting them to the government.

The investigation revealed that the criminal organization had evaded more than \$30 million in taxes over a period of three years by using six shell companies.

The investigation led to 69 raids and the arrest of 16 people. Goods valued at more than \$3 million were recovered, including a building, gold and jewellery.

The investigation was conducted in collaboration with Revenu Québec, which also issued notices of assessment totalling tens of millions of dollars.

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

❑ **Combatting fraud against the government**

Because fraud schemes against the government are complex, the government set up a special unit within the Sûreté du Québec tasked with investigating this type of crime in collaboration with the victimized departments and bodies. This unit is responsible for:

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

In addition, since fraud against the government often involves the use of falsified or counterfeit documents, the departments and bodies concerned can count on the expertise of the Laboratoire de sciences judiciaires et de médecine légale.

Example of an intervention in combatting fraud against the government

Led by, among others, the Ministère du Travail, de l'Emploi et de la Solidarité sociale (MTESS) and the Sûreté du Québec, the NOLISER investigation concerned fraud carried out via counterfeit documents. Some were analyzed by the Laboratoire de sciences judiciaires et de médecine légale.

Employment agencies were using a scheme involving falsified certificates of compliance from the Commission des normes, de l'équité, de la santé et de la sécurité du travail.

In November 2020, three suspects were arrested. In addition, assessment notices totalling more than \$3 million were issued.

This investigation demonstrated the benefit of coordinated efforts by several partners involved in fighting fraud against the government.

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

❑ The fight against organized networks of unreported work

The Ministère du Travail, de l'Emploi et de la Solidarité sociale and its partners,¹¹ have worked together to combat criminal networks linked to employment agencies.

— The concerted actions help identify these networks, recover money owed to the government, take deterrent action, and help people involved in unreported work integrate into the legal labour market.

These networks recruit vulnerable workers, often newcomers, generally by paying them in cash and thereby depriving these workers of the protections and employee benefits provided for in Québec.

— These fraudulent agencies also neglect to report their income, which generates significant tax losses for the Québec government.

Example of an intervention in the fight against organized networks of unreported work

The TARMAC investigation, conducted by the Ministère du Travail, de l'Emploi et de la Solidarité sociale, concerned fraud of more than \$500 000. It involved 11 employment agencies and passenger transportation companies for which more than 7 000 people had worked.

Many schemes were used to perpetrate this fraud, including:

- hiring workers under the table, primarily recipients of last resort financial assistance;
- recruiting workers who recently arrived in Québec and who can be easily exploited since they have little or no knowledge of worker protection laws;
- using fake names and addresses in the Registre des entreprises du Québec;
- using cheque-cashing centres and false invoice schemes.

A total of 10 raids were conducted, close to \$100 000 in cash was seized and almost \$500 000 in 16 bank accounts was frozen.

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

¹¹ This includes, among others, the Commission des normes, de l'équité, de la santé et de la sécurité du travail, Revenu Québec and the Sûreté du Québec.

3.4 Return on and funding for concerted actions

To enable them to work together to combat tax evasion and fraud against the government, the Ministère des Finances du Québec grants the departments and bodies funding from the Provision.

- In their work, they benefit from the expertise of other committee members, establish policy directions, analyze certain legal aspects and improve information sharing.

Results of concerted actions to combat tax evasion and fraud against the government

In 2019-2020, the concerted actions to combat tax evasion and fraud against the government funded by the Provision yielded a return of more than \$510 million.

- The return per dollar invested in projects funded by the Provision was \$11.21.

TABLE B.5

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)

	2019-2020
ACCES construction	188.4
ACCES tobacco	193.9
ACCES alcohol	98.8
ACCEF, combatting fraud against the government and the fight against organized networks of unreported work	31.3
TOTAL	512.4
Funding granted to partners ⁽¹⁾	45.7
RETURN PER DOLLAR INVESTED (IN DOLLARS)	11.21

Note: Totals may not add due to rounding.

(1) Some projects funded by the Provision have objectives that do not translate into a return. The funding of these projects is excluded from the amount used to calculate the return per dollar invested and funded by the Provision.

□ Budget envelope

In 2020-2021, the Ministère des Finances du Québec granted \$53.7 million in funding for concerted actions to combat tax evasion and fraud against the government.

For 2021-2022, the Provision budget envelope will be \$53.2 million.

— The funding per project is not available for 2021-2022 since the Ministère des Finances du Québec is in the process of analyzing funding requests from departments and bodies.

Funding for the ACCES cannabis committee is provided by the Cannabis Sales Revenue Fund, whose mandate is to prevent psychoactive drug use and fight against its harmful effects.

TABLE B.6

Funding for concerted actions to combat tax evasion and fraud against the government (millions of dollars)

	2020-2021	2021-2022
Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government		
ACCES construction	9.0	—
ACCES tobacco	15.6	—
ACCES cannabis	0.3	
ACCES alcohol	6.3	—
ACCEF, combatting fraud against the government and the fight against organized networks of unreported work	18.1	—
Other initiatives	4.4	—
Subtotal	53.7	53.2
Cannabis Sales Revenue Fund		
ACCES cannabis	22.6	—
TOTAL	76.3	—

Section C

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

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1. **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 table a balanced financial framework. In general, the Act specifies the calculation of the budgetary balance, establishes a stabilization reserve 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, if applicable.

For 2020-2021, the budgetary deficit stands at \$6.2 billion after use of the stabilization reserve.

□ Approach for restoring fiscal balance

Given the high level of uncertainty that remains, the government would like to ensure a sustainable economic recovery before implementing a plan to restore fiscal balance.

— Therefore, efforts to offset the budgetary deficit will be implemented once Québec has returned to full employment.

The government wishes to suspend the effects of the *Balanced Budget Act* as of 2021-2022 in order to gradually reduce the deficit without hindering services to Quebecers or a sustainable recovery of economic growth.

— Legislative amendments will therefore be proposed to avoid setting in motion provisions that have different implications for Budget 2021-2022, such as obligations to:

- table a plan to restore fiscal balance;
- implement offsetting measures for overruns during the fiscal year covered by the budget.

Fiscal balance is expected to be restored by 2027-2028.

¹ The budgetary data for 2020-2021 and subsequent years presented in this section are forecasts.

TABLE C.1

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

Fiscal year	Surplus (deficit) within the meaning of the Public Accounts ⁽¹⁾	Dedicated revenues in the Generations Fund	Accounting changes and other	Budgetary balance within the meaning of the Act	Stabilization reserve		Budgetary balance within the meaning of the Act after reserve ⁽²⁾
					Allocations	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	-3 141	-961	1 876 ⁽⁷⁾	-2 226	—	—	-2 226 ⁽⁸⁾
2013-2014	-2 142	-1 121	—	-3 263	—	—	-3 263 ⁽⁸⁾
2014-2015	-534	-1 279	418 ⁽⁴⁾	-1 395	—	—	-1 395 ⁽⁸⁾
2015-2016	3 456	-1 453	—	2 003	-2 003	—	—
2016-2017	4 147	-2 001	—	2 146	-2 146	—	—
2017-2018	3 014	-2 293	—	721	-721	—	—
2018-2019	7 890	-3 477	—	4 413	-4 413	—	—
2019-2020	2 083	-2 606	—	-523	—	523	—
2020-2021	-11 986	-3 014	—	-15 000	—	8 760	-6 240 ⁽⁹⁾

(1) As of 2012-2013, the surplus or deficit within the meaning of the Public Accounts includes the impact of the change in application of the accounting standard respecting transfer payments.

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

(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 exceptional 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 \$2.2 billion, \$3.3 billion and \$1.4 billion recorded for 2012-2013, 2013-2014 and 2014-2015, respectively, are allowed pursuant to the *Balanced Budget Act*.

(9) The *Balanced Budget Act* will be amended in order to suspend the obligation to achieve a balanced budget in 2020-2021.

1.2 Stabilization reserve

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

This reserve is a budgetary tool that was established in order to facilitate multi-year planning of the government's financial framework.

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.

The reserve acts like a counter made up of surpluses achieved, but it does not consist of surplus cash, as generated surpluses are used to reduce the debt. In other words, the stabilization reserve is not money in the bank. Accordingly, its use gives rise to an increase in the debt.

Taking into account the projected budgetary deficit of \$15.0 billion for fiscal 2020-2021, \$8.8 billion will be taken from the stabilization reserve, which is equivalent to its total amount. For 2020-2021, the budgetary deficit will stand at \$6.2 billion after use of the stabilization reserve, and the balance of the stabilization reserve will be zero as at March 31, 2021.

TABLE C.2

Operations of the stabilization reserve (millions of dollars)

Fiscal year	Balance, beginning of year	Allocations ⁽¹⁾	Uses		Balance, end of year
			Balanced budget	Generations Fund	
2015-2016	—	2 003	—	—	2 003
2016-2017	2 003	2 146	—	—	4 149
2017-2018	4 149	721	—	—	4 870
2018-2019	4 870	4 413	—	—	9 283
2019-2020	9 283	—	-523	—	8 760
2020-2021	8 760	—	-8 760	—	—

(1) Allocations to the stabilization reserve were restated to include the change in application of the accounting standard respecting transfer payments on the budgetary balance (see the Appendix on page I.39 of the *Québec Budget Plan – March 2021*).

Impact of the change in the application of the accounting standard respecting transfer payments

Based on the Public Accounts 2019-2020, the stabilization reserve, which is the sum of the budgetary surpluses since 2015-2016, stood at \$12.0 billion. The change in application of the accounting standard respecting transfer payments leads to a downward adjustment in the reserve of \$3.2 billion. As at March 31, 2020, it now stands at \$8.8 billion.

Impact of the change in application of the accounting standard respecting transfer payments on budgetary balances and the stabilization reserve since 2015-2016

(millions of dollars)

	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020	Total
Budgetary balance before the change	2 191	2 361	2 622	4 803	4	
Impact of the change in the application of the accounting standard	-188	-215	-1 901 ⁽¹⁾	-390	-527	-3 221
Budgetary balance after the change	2 003	2 146	721	4 413	-523	
Balance of the stabilization reserve after the change	2 003	4 149	4 870	9 283	8 760	

(1) The \$1 901-million increase in 2017-2018 includes the impact of \$1 208 million for the transfer, on June 1, 2017, of the operations of the Agence métropolitaine de transport to the Autorité régionale de transport métropolitain and the Réseau de transport métropolitain, which are excluded from the reporting entity.

2. 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.

Debt reduction

The COVID-19 pandemic stopped the decrease in the gross debt-to-GDP ratio and the ratio of debt representing accumulated deficits to GDP that had prevailed in recent years.

As at March 31, 2021, the gross debt will stand at 49.5% of GDP, and the debt representing accumulated deficits will amount to 27.1% of GDP.

Given the substantial increase in the debt in 2020-2021 as a result of the significant deterioration in Québec's financial situation due to the public health crisis, it is not expected that the targets set out in the Act will be met.²

Québec's economic situation remains uncertain due to the current pandemic. Over the coming months, the government will continue to monitor the evolution of the economy and public finances. Based on this information, it will review the *Act to reduce the debt and establish the Generations Fund*, particularly with regard to the achievement of the targets set for 2025-2026.

² Section I of the *Québec Budget Plan – March 2021* provides detailed information on the Québec government's debt.

2.2 Generations Fund

□ Deposits in the Generations Fund

Deposits in the Generations Fund help to reduce the debt and thus to improve intergenerational fairness. That is why the government has chosen to maintain these deposits, despite the expected deficits.

In 2021-2022, deposits of dedicated revenues in the Generations Fund will amount to \$3.1 billion.

Deposits in the Fund come mainly from:

- water-power royalties by Hydro-Québec and private producers of hydro-electricity;
- revenue stemming from the indexation of the price of heritage electricity;
- an 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)

	March 2020		March 2021					
	2020-2021	Adjustments	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Book value, beginning of year⁽¹⁾	8 926	-27	8 899	11 913	14 993	18 201	21 978	26 087
Dedicated revenues								
Water-power royalties								
Hydro-Québec	763	-46	717	739	763	818	829	835
Private producers	103	2	105	104	106	108	110	113
Subtotal	866	-44	822	843	869	926	939	948
Indexation of the price of heritage electricity	388	-6	382	495	520	630	740	845
Additional contribution from Hydro-Québec	215	—	215	215	215	215	215	215
Mining revenues	283	86	369	395	317	340	347	389
Specific tax on alcoholic beverages	500	—	500	500	500	500	500	500
Unclaimed property	15	22	37	27	34	252	272	40
Investment income ⁽²⁾	462	227	689	605	753	914	1 096	1 288
Total dedicated revenues	2 729	285	3 014	3 080	3 208	3 777	4 109	4 225
BOOK VALUE, END OF YEAR	11 655	258	11 913	14 993	18 201	21 978	26 087	30 312

(1) For information purposes, the market value of the Generations Fund as at December 31, 2020, was \$12.0 billion, which is \$1.0 billion higher than its book value.

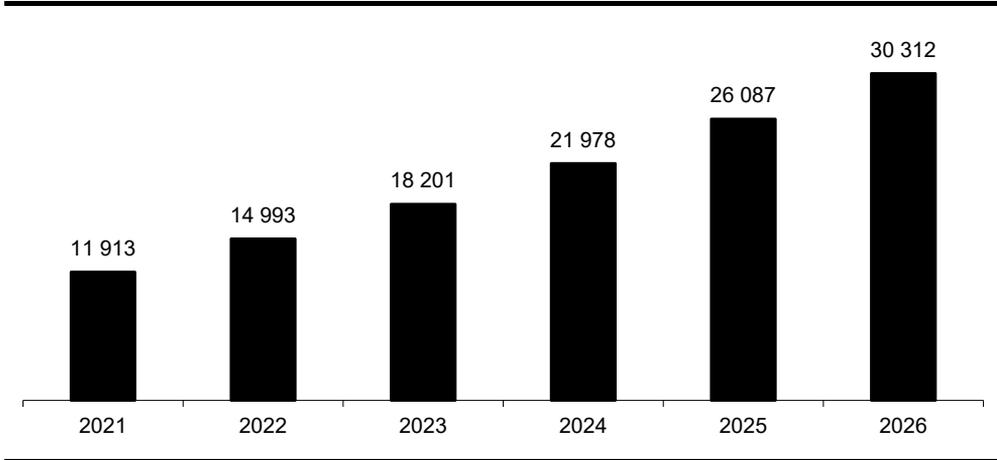
(2) The investment income of the Generations Fund corresponds to realized investment income (interest income, dividends, gains on the disposal of assets, etc.). Therefore, the forecast may be adjusted upward or downward according to when the gains or losses are actually realized. An annual return of 4.8% is expected, based on five historical years.

□ Evolution of the Generations Fund

Taking into account the deposits made since the creation of the Fund and those forecast, as well as the use of the Fund to repay borrowings on financial markets, the book value of the Generations Fund is expected to stand at \$15.0 billion as at March 31, 2022 and \$30.3 billion as at March 31, 2026.

CHART C.1

Growth in the book value of the Generations Fund as at March 31 (millions of dollars)



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 establishes 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 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 made up 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;³
- revenues from the indexation of the price of heritage electricity since 2014;
- fees or charges for water withdrawal;³
- since 2015-2016, the total 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;³
- 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.

³ A government order is required to set the portion of these amounts that must 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.

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 representatives of 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 REQUIRING LEGISLATIVE OR REGULATORY AMENDMENTS

1. Measures requiring legislative or regulatory amendments.....D.3

1. MEASURES REQUIRING LEGISLATIVE OR REGULATORY AMENDMENTS

Certain measures presented in the 2021-2022 budget documents require legislative or regulatory amendments that are not of a fiscal nature. 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 25, 2021 or by the ministers responsible for the laws or regulations requiring amendments.

❑ Eliminating interest on student loans for one year

The Minister of Higher Education will propose amending the *Regulation respecting financial assistance for education expenses* (CQLR, chapter A-13.3, r. 1) so that individuals required to repay amounts obtained under student financial assistance programs do not have to pay interest on those amounts for the period from April 1, 2021 to March 31, 2022.

The government will pay, on behalf of borrowers, the interest owing to financial institutions and set an interest rate of 0% on amounts owing to the Minister of Higher Education for the duration of the measure.

— This measure seeks to harmonize with the measure announced by the federal government on November 30, 2020 in an economic statement.

A legislative amendment will have to include all files in collection at the Ministère de l'Enseignement supérieur. An interest rate of 0% shall therefore apply to all files in collection for the period from April 1, 2021 to March 31, 2022. This legislative amendment is required as the *Regulation respecting financial assistance for education expenses* does not authorize the Minister to make this change.

Details of this measure are presented in section C, “Supporting Educational Success and Young People,” of the *Québec Budget Plan – March 2021*.

❑ Simplifying the property tax refund for forest producers

To support forest development on private land, the government is offering forest producers a refund of 85% on property taxes paid on a forest property, provided that the development expenditure amount is equal to or greater than the tax amount.

The government is proposing adjustments aimed at simplifying the determination of refunds related to these property taxes:

- the refund will be granted even if the eligible forest development expenses are lower than the property tax amount for a property assessment unit;
- the property tax refund will no longer be calculated by unit; the calculation will now be based on an owner's combined property assessment units.

To implement these simplification measures, the government will first introduce amendments to the *Sustainable Forest Development Act* (CQLR, chapter A-18.1) as well as the *Regulation respecting the reimbursement of property taxes of certified forest producers* (CQLR, chapter A-18.1, r. 12.1). The *Act respecting municipal taxation* (CQLR, chapter F-2.1) will then be amended to take into account the required adjustments.

Details of this measure are presented in section D, “Accelerating Growth and the Transition to the New Economy,” of the *Québec Budget Plan – March 2021*.

Combatting addiction

The government will set up the Fonds de lutte contre les dépendances in order to fund initiatives promoting the prevention and treatment of psychoactive substance addiction and compulsive gambling.

This fund will be financed, in particular, by the Société québécoise du cannabis, the Société des alcools du Québec and Loto-Québec. To implement this measure, the government will have to introduce amendments to the *Act respecting the Société des alcools du Québec* (CQLR, chapter S-13) and the *Act respecting the Société des loteries du Québec* (CQLR, chapter S-13.1).

Details of this measure are presented in section E, “Supporting Quebecers,” of the *Québec Budget Plan – March 2021*.

Broadening and enhancing assistance for homes damaged by pyrrhotite

The government will make the necessary amendments to the *Act respecting municipal taxation* (CQLR, chapter F-2.1) in order to improve the averaging rules for property values. The improvements are intended to address certain undesirable effects of the current rules, particularly concerning the school tax, that could arise following repairs to properties that have seen a significant drop in value, such as homes affected by pyrrhotite.

Details of this measure are presented in section E, “Supporting Quebecers,” of the *Québec Budget Plan – March 2021*.

❑ **Eliminating the financial contribution for child placement**

In Québec, when a child is placed in an alternative living environment, their parents have to pay a financial contribution. The parents continue to receive the refundable tax credit granting an allowance to families, provided the financial contribution is paid.

In response to issues raised in particular by the Québec Ombudsman in 2013, the government is announcing, in Budget 2021-2022, the elimination of the financial contribution to the placement of children.

Amendments to the *Regulation respecting the application of the Act respecting health services and social services for Cree Native persons* (CQLR, chapter S-5, r. 1) and the *Regulation respecting the contribution of users taken in charge by family-type resources or by intermediate resources* (CQLR, chapter S-4.2, r. 7) will be required to implement this measure.

Details of this measure are presented in section E, “Supporting Quebecers,” of the *Québec Budget Plan – March 2021*.

❑ **Facilitating the return of unclaimed financial assets to right-holders**

Following certain events, such as death, some beneficiaries may be entitled to receive some financial assets but aren't informed of it. To assist right-holders in obtaining such owed property, the government intends to amend the *Unclaimed Property Act* (CQLR, chapter B-5.1), for example, by specifying the criteria governing life insurance contracts.

Details of this measure are presented in section F, “Ensuring Fairness,” of the *Québec Budget Plan – March 2021*.

❑ **Suspending the impact of the *Balanced Budget Act***

Amendments will be introduced to the *Balanced Budget Act* (CQLR, chapter E-12.00001) to temporarily suspend the obligation to table a plan to restore fiscal balance and to authorize declining budgetary deficits, which will not need to be offset at a later time.

Details of this measure are presented in section H, “Québec's Financial Situation,” of the *Québec Budget Plan – March 2021*.

❑ **Eliminating the Caregiver Support Fund**

The Caregiver Support Fund was created in 2009 primarily to increase the supply of respite services to caregivers, offer tailored training to informal caregivers and support innovation and the acquisition and transfer of knowledge in the area of informal caregiving. The fund was created in conjunction with a partnership between the Minister Responsible for Seniors and Sojecci II Ltée, which is ending in 2021. Consequently, maintenance of the fund is no longer required.

The *Act to establish a caregiver support fund* (CQRL, chapter F-3.2.1.1) will have to be repealed and, as of 2021-2022, expenditures previously associated with the fund will be incorporated into program spending dedicated to this clientele, in particular L'Appui national pour les proches aidants.

