

1998-1999  
BUDGET

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Additional

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Information

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Measures

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# Additional Information

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## Table of Contents

Section 1  
**Revenue Measures**

Section 2  
**Expenditure Measures**

Section 3  
**Financial Impact of Fiscal and Budgetary Measures**

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# Section 1

## Revenue Measures

<b>1.</b>	<b>MEASURES AFFECTING INDIVIDUALS .....</b>	<b>1</b>
1.1	Introduction of a tax credit respecting interest paid on a student loan.....	1
1.2	Increased income tax reduction for families.....	1
1.3	Improvement and standardization of the tax treatment of gifts.....	2
1.4	Eligibility of certain training costs for the tax credit for medical expenses.....	3
1.5	Tax relief for individuals living in northern villages.....	4
1.5.1	Introduction of a refundable tax credit.....	4
1.5.2	Non-taxation of certain bursaries .....	5
1.6	Amendment to the tax treatment of certain wage reimbursements or salary insurance refunds.....	6
1.7	Terms and conditions of payment of the sales tax credit in 1998.....	7
1.8	Amount for a dependant not residing in Canada who has a physical or mental impairment.....	7
1.9	Tax treatment of recipients of last resort assistance .....	8
<b>2.</b>	<b>MEASURES CONCERNING BUSINESSES.....</b>	<b>9</b>
2.1	Corporate taxation reform.....	9
2.2	Extension of and changes to the refundable tax credit for on-the-job training .....	9
2.2.1	Extension of the application period of the tax credit.....	10

2.2.2	Improvement of the tax credit for the apprenticeship plan ....	10
2.2.3	Clarifications for post-secondary candidates .....	10
<b>2.3</b>	<b>Measures concerning scientific research and experimental development.....</b>	<b>11</b>
2.3.1	Tax benefits for certain post-doctoral internships .....	12
2.3.2	Designation of new eligible public research centres.....	13
2.3.3	Streamlining of rules relating to sub-contracting.....	14
2.3.4	Introduction of a special tax.....	15
<b>2.4</b>	<b>Measures to assist business capitalization.....</b>	<b>15</b>
2.4.1	Higher asset limit for the eligibility of a corporation for the stock savings plan .....	15
2.4.2	Simplification and standardization of tax assistance relating to Québec Business Investment Companies.....	16
<b>2.5</b>	<b>Measures to support the growth of Québec's financial sector ....</b>	<b>17</b>
2.5.1	Improved tax benefits relating to international financial centres .....	17
2.5.2	Introduction of a refundable tax credit relating to the apprenticeship period of young portfolio managers .....	33
2.5.3	New measures to foster the creation of investment funds ....	35
<b>2.6</b>	<b>Refundable tax credits for film and television productions .....</b>	<b>38</b>
2.6.1	Introduction of a refundable tax credit for film or television production services.....	39
2.6.2	Improved tax assistance for computer animation and special effects .....	42
2.6.3	Streamlining of certification criteria for certain films.....	44
2.6.4	Extension of transition rules for certain variety shows and magazines .....	45
2.6.5	Formation of a task force.....	45

<b>2.7</b>	<b>Simplification of the refundable tax credit for the production of multimedia titles .....</b>	<b>46</b>
<b>2.8</b>	<b>Introduction of a refundable tax credit for job creation in the clothing and footwear industry .....</b>	<b>50</b>
<b>2.9</b>	<b>Elimination of the tax credit for job creation .....</b>	<b>54</b>
<b>2.10</b>	<b>Mining taxation .....</b>	<b>55</b>
2.10.1	Increased support for exploration in Québec's Mid-North and Far North.....	55
2.10.2	Additional allowance for treatment of mine tailings.....	56
2.10.3	Restriction on the possibility of waiving exploration expenses.....	57
<b>2.11</b>	<b>Measures concerning the tax on capital .....</b>	<b>57</b>
2.11.1	Calculation of the paid-up capital of certain financial institutions .....	58
2.11.2	Securities eligible for the reduction for investments .....	59
2.11.3	Standardization of rules relating to short-term holding of securities .....	59
2.11.4	Technical change to the relief from the tax on capital regarding new investments in certain sectors.....	60
2.11.5	Technical change to the calculation of the paid-up capital of certain corporations involved in mining .....	61
2.11.6	Updated list of Québec government corporations subject to the tax on capital.....	62
<b>2.12</b>	<b>Tax assistance for the capitalization of the Réseau d'investissement social du Québec .....</b>	<b>63</b>
<b>2.13</b>	<b>Adjustments to the accelerated depreciation deduction.....</b>	<b>63</b>
2.13.1	Additional 20% deduction granted to partnerships.....	64
2.13.2	Obligation to file an amended tax return in certain cases .....	65

<b>3.</b>	<b>CONSUMPTION TAXES .....</b>	<b>66</b>
<b>3.1</b>	<b>Québec sales tax .....</b>	<b>66</b>
3.1.1	Zero-rating of services relating to corporeal movable property usually located outside Québec but within Canada .....	66
3.1.2	Clarification concerning the exemption of 9-1-1 emergency call services .....	66
3.1.3	Partial rebate of the tax paid in regard to vehicles adapted for the transportation of persons with disabilities ....	67
3.1.4	Increase in the number of years covered by the reference books published by Hebdo Mag Inc.....	67
<b>3.2</b>	<b>Fuel tax .....</b>	<b>68</b>
3.2.1	Relaxation of the rule prohibiting the transfer of fuel to certain wholesale dealers .....	68
3.2.2	Transfer of tax rebates .....	69
3.2.3	Increase in working capital advances granted to wholesale dealers .....	69
<b>3.3</b>	<b>Taxes and duties on alcoholic beverages.....</b>	<b>70</b>
3.3.1	Abolition of the specific tax and duty applicable to the first 1 500 hectolitres sold by a small-scale producer .....	70
3.3.2	Tax exemption for diplomatic and consular corps and international government organizations .....	70
3.3.3	Harmonization of reporting periods .....	71
<b>3.4</b>	<b>Postponement of the application of the specific tax on lodging in the Lanaudière and Outaouais tourism regions.....</b>	<b>72</b>
<b>4.</b>	<b>OTHER FISCAL MEASURES .....</b>	<b>73</b>
<b>4.1</b>	<b>Introduction of provincial tax anti-avoidance rules pertaining to trusts.....</b>	<b>73</b>
<b>4.2</b>	<b>Amendments to certain rules governing associated corporations.....</b>	<b>74</b>

4.3	Broadening of the field of application of the anti-avoidance rule pertaining to centralized payroll systems .....	75
4.4	Technical amendment to the addition mechanism with respect to the foreign tax credit .....	76
4.5	Tax treatment of allowances previously paid by order in council .....	76
4.6	Addition of a power to make regulations.....	77
4.7	Clarification respecting the status of certain Indian corporations.....	77
4.8	Relaxation pertaining to the administration of the tax exemption for home-care services.....	77
4.9	Simplification of the mechanism enabling an employer to limit contributions to the Québec Pension Plan.....	78
4.10	Technical amendment pertaining to duties on transfers of immovables.....	78
4.11	Progress made by the three task forces set up under last year's Budget Speech.....	79
5.	FEDERAL LEGISLATION AND REGULATIONS.....	81
5.1	Notice of Ways and Means Motion of December 8, 1997 .....	81
5.2	News release issued by the federal Department of Finance on January 15, 1998.....	86
5.3	Federal Budget Speech of February 24, 1998 .....	86
5.3.1	Measures pertaining to the <i>Income Tax Act</i> .....	87
5.3.2	Measures pertaining to the <i>Excise Tax Act</i> .....	89
6.	RECOVERY PLAN FOR THE HORSE-RACING INDUSTRY .....	90





## **1. MEASURES AFFECTING INDIVIDUALS**

### **1.1 Introduction of a tax credit respecting interest paid on a student loan**

Under existing rules, the interest paid by an individual on a student loan does not generally give entitlement to a deduction in the calculation of income.

In order to reduce the burden resulting from the obligation to pay interest on such a loan, a new non-refundable tax credit will be created beginning with the 1998 taxation year. Generally speaking, this non-refundable tax credit will be equal, for a given taxation year, to 23% of the interest paid, in the year, on a loan repaid on the terms and conditions set up under the *Act respecting financial assistance for students* or the *Canada Student Loans Act*. The amount of the interest paid in a given year that was not taken into consideration in the calculation of the tax credit to which an individual is entitled for that year can give entitlement to a tax credit for any later taxation year. This tax credit can only be claimed by an individual who elects to use the general tax return.

An individual who claims, for a given taxation year, the non-refundable tax credit with respect to interest paid on a student loan must include with his income tax return for the year a voucher issued, for instance, by the financial institution to which the interest was paid.

This measure will apply to interest paid after December 31, 1997.

### **1.2 Increased income tax reduction for families**

Under the existing rules, an individual with a dependent child may benefit from a tax reduction whose ceiling depends on the individual's filing status. In the case of a couple, the ceiling is \$1 500. For a single-parent family that is not sharing its dwelling, it is \$1 195 and, for a single-parent family that does share its dwelling, the maximum reduction is \$970.

During the coming year, the government will implement, under the *Act respecting income support, employment assistance and social solidarity*, a major reform of its financial assistance programs. Among other things, the provisions of the *Regulation respecting income security* providing for a reduction in the benefits granted a single-parent family that shares a dwelling will not be continued, so that the financial assistance paid to such an income security recipient will not depend on whether he shares a dwelling.

In order to maintain the harmonization between the tax system and transfer programs, a consequential amendment will be made to tax legislation. The maximum amount of the tax reduction for a single-parent family that shares a dwelling will be increased from \$970 to \$1 195, the amount granted a single-parent family that does not share its dwelling.

This measure will apply as of taxation year 1998.

### **1.3 Improvement and standardization of the tax treatment of gifts**

Individuals who make gifts to certain bodies, particularly registered charitable organizations or mandataries of the government, benefit from a non-refundable tax credit equal to 23% of the amount of the gift or, in the case of a gift in kind, the fair market value of the property donated. Corporations benefit from a deduction in the calculation of their income.

However, the maximum amount of the gifts that can generate such a tax benefit for a given year depends on the income of the donor for that year. Any surplus can be carried forward over the next five years and carried back, in the case of a gift made during the year of death, to the previous year.

More specifically, the ceiling on the amount used to calculate total charitable gifts is equal to 20% of the donor's income for that year. In the case of Crown gifts, including those made to a mandatar of the government, the ceiling is equal to 100% of the donor's income for that year.

Tax legislation will be amended to improve the tax treatment of charitable gifts and standardize the rules applicable to charitable and Crown gifts.

The ceiling applicable to total Crown gifts will be reduced from 100% to 75% of the donor's annual income and the ceiling applicable to total charitable gifts for a year other than the year in which a taxpayer dies or the year preceding such death will be increased from 20% to 75% of the donor's annual income.

Thus, the ceiling used to calculate total charitable gifts will be increased from 20% to 100% of the donor's annual income for the year in which a taxpayer dies and the previous year.

In addition, when the object of the gift is property that is related to the mission of the donor, i.e. property that is acquired by the donor while carrying out his main mission and that he can use to fulfill that mission without selling it, the ceiling equal to 75% of the donor's annual income applicable to the gift will be increased by an amount equal to 25% of the total of the following amounts:

- the lower of the following amounts:
  - the amount of the recapture of depreciation included in the donor's income for the year with respect to a prescribed class of depreciable property that included the property that was the object of the charitable gift or Crown gift during the year;
  - for each piece of property included in this class that was the object of a charitable gift or a Crown gift during the year, the capital cost of the property or, if lower, its fair market value;
- for each piece of property that was the object of a charitable gift or a Crown gift during the year, the amount of the taxable capital gain included in the donor's taxable income for the year because of the gift.

More specifically, the ceiling applicable to the calculation of the total gifts of cultural property and the total gifts of property with undeniable ecological value will remain equal to 100% of the donor's income for the year.

These amendments will apply to a taxation year beginning after 1997. However, in the case of Crown gifts made the day of the Budget Speech or earlier, or in keeping with a written commitment made no later than the day of the Budget Speech, the ceiling for that gift will remain equal to 100% of the donor's income for that year.

## **1.4 Eligibility of certain training costs for the tax credit for medical expenses**

At present, an individual may benefit from a non-refundable tax credit equal to 23% of the eligible medical expenses he pays for himself, his spouse or a dependant. The amount of these eligible medical expenses is reduced by 3% of net family income.

Some costs associated with the training given a disabled person may be included in the expenses giving entitlement to the tax credit for medical expenses. However, the amounts paid by a person who has a disabled spouse or dependant and who takes courses to enable him to care for and train, in turn, the disabled person are not included in the eligible medical expenses.

Tax legislation will therefore be amended so that the expenses paid by a person for training will be eligible for the tax credit for medical expenses when a competent person attests that, because of the physical or mental disability of his spouse or dependant, he requires training to provide the care and instruction appropriate for his spouse or dependant.

This amendment will apply as of the 1998 taxation year.

## 1.5 Tax relief for individuals living in northern villages

### 1.5.1 Introduction of a refundable tax credit

Fourteen northern villages are located above the 55th parallel, along the shores of Hudson Bay, Hudson Strait and Ungava Bay. Since the signature of the *James Bay and Northern Québec Agreement*, the people of these villages, 90% of whom are Inuit, have access to the same public services and assume the same tax responsibilities as other residents of Québec.

However, the isolation of these villages, the climate and the high cost of living distinguish them from other Québec communities and make specific tax measures necessary.

The tax legislation will therefore be amended to enable the people of these villages to benefit from a refundable tax credit. The amount of this tax credit will be based on the number of months of the year during which an individual lives in a northern village. To that end, each part of a month during which a person lives in a northern village will be considered to be a whole month. In calculating this refundable tax credit, a monthly amount of \$35 will be granted in respect of each spouse, in addition to a monthly amount of \$15 in respect of each dependant during the taxation year. The parameters for this new tax credit are given in the following table.

TABLE 1.1

#### REFUNDABLE TAX CREDIT FOR INDIVIDUALS LIVING IN NORTHERN VILLAGES (in dollars)

##### Maximum amount on a monthly basis

In respect of an adult	35
In respect of a dependant	15

##### Maximum amount on an annual basis

In respect of a person living alone	420
In respect of a single-parent family with one dependent child	600
In respect of a couple with two dependent children	1 200

Generally speaking, the terms and conditions for applying the refundable tax credit for inhabitants of a northern village will be similar to those for the refundable sales tax credit, with the necessary adaptations.

For example, this tax credit will be paid in two equal instalments, in August and December of each year, on the basis, in particular, of the net family income the preceding year.

However, the maximum amount of the tax credit an inhabitant of a northern village can receive will be reduced by 15% of net family income in excess of \$26 000.

For the application of this tax credit, a northern village is a territory erected as a northern village municipality in keeping with the *Act respecting northern villages and the Kativik Regional Government*.

The first instalment of the refundable tax credit will be made in August 1999.

### **1.5.2 Non-taxation of certain bursaries**

At present, the ministère des Transports gives the Kativik School Board financial assistance for the transportation costs it pays for students from northern villages who must live away from home because the programs of study in which they are enrolled are not offered in their home community.

Generally speaking, this assistance consists of the reimbursement of the real transportation costs of the student, his spouse and the children living with him, from their home to the municipality in which the educational institution is located, for a maximum of three round trips a year. The real cost of transporting their personal belongings is also covered, up to an annual maximum.

The purpose of this financial assistance is, essentially, to offer the Inuit people the same education services as are available to other residents of Québec.

Furthermore, the tax legislation stipulates that any amount over \$500 paid to an individual in the form of a bursary must be included in the calculation of his income for the taxation year in which it was received. In order to harmonize this rule with the provisions of the *James Bay and Northern Québec Agreement*, an amendment will be made to the tax legislation so that financial assistance for transportation granted under the budget rules established by the ministère des Transports in applying the provisions of the *Education Act for Cree, Inuit and Naskapi Native Persons* not be considered an amount received in the form of a bursary and, consequently, be tax-free.

This amendment will apply retroactively to amounts received after December 31, 1992.

## **1.6 Amendment to the tax treatment of certain wage reimbursements or salary insurance refunds**

The tax legislation currently allows a taxpayer to deduct in the calculation of his income from an office or employment, for a given taxation year, the wage reimbursements or salary insurance refunds he makes during that year because, following an accident, for instance, he received non-taxable benefits paid under the *Act respecting occupational health and safety* or the *Automobile Insurance Act*. When the amount reimbursed by the taxpayer exceeds his income for the year in which he made the reimbursement, the mechanism for carrying over losses other than capital losses applies. In general, this mechanism makes it possible to carry a loss other than a capital loss back three taxation years or forward seven taxation years.

When an individual makes a reimbursement in a taxation year other than the one in which the wage or the salary insurance was received, the deduction or the carry-over of the loss other than a capital loss does not quite re-create the tax situation that would have prevailed if the person had received the non-taxable benefit immediately after the accident.

Furthermore, current tax legislation stipulates that a taxpayer who received an benefit under the *Act respecting the Québec Pension Plan* or the *Employment Insurance Act* in a previous year and had to reimburse it subsequently may request a refundable tax credit for the repayment of benefits. In general, this tax credit is based on the income tax that would have been payable if the income of the years contemplated had been reduced by the amount the taxpayer must finally reimburse. The real tax burden is then compared with the hypothetical burden to determine the surplus income tax attributable to each of the years contemplated. The sum of these surpluses constitutes the amount of the refundable tax credit granted in the taxation year in which the person reimburses the benefits.

In order to create a level playing field for taxpayers in similar situations, amendments will be made to the tax legislation. An individual will henceforth be entitled to the refundable tax credit for the reimbursement of benefits, for a given year, when he pays an amount, or an amount is paid for him, in that year, in keeping with an agreement according to which he must reimburse any amount he received for an entire period during which he did not carry out the duties associated with his office or employment. However, in order to benefit from this tax credit, an individual must have included this amount in the calculation of his income from an office or employment for a previous year.

As a corollary, a taxpayer who reimburses wages or salary insurance benefits in a year subsequent to the year in which he received them will no longer be able to deduct these amount in the calculation of his income from an office or employment for the year of the reimbursement.

These amendments will apply to a reimbursement made by a taxpayer as of the 1998 taxation year.

## **1.7 Terms and conditions of payment of the sales tax credit in 1998**

In the Budget Speech of March 25, 1997, two improvements were made to the refundable sales tax credit, namely:

- an increase in the scale;
- payment of the tax credit in two equal instalments each year, one in August and the other in December.

For 1998, a transitional rule was created to take into account the fact that taxpayers will be able to obtain a partial payment of their tax credit when they file their 1997 income tax return. It was announced at the time that each of the payments made in August and December 1998 would correspond to 50% of the increase in the scale.

In order to reduce the administrative costs associated with this measure for the transitional year, the increase in the scale will be paid entirely in August 1998.

## **1.8 Amount for a dependant not residing in Canada who has a physical or mental impairment**

The current tax legislation stipulates that an individual may request, for a given taxation year, a non-refundable tax credit for a dependant who has a physical or mental impairment, whether or not the dependent person usually lives with the individual. Furthermore, this tax credit is reduced by the income, for the year, of the dependent person in respect of whom the tax credit is being requested.

The tax legislation does not require that the dependent person in respect of whom the tax credit is being requested live in Canada. In practice, it is very difficult for the ministère du Revenu du Québec to verify whether a person who does not reside in Canada is really dependent on a taxpayer, or to verify his income.

Amendments will therefore be made so that the tax credit for dependants who have a physical or mental impairment, other than children and grandchildren, cannot be requested for a given year for a person who did not reside in Canada at any time during that year.

This amendment will apply as of the 1998 taxation year.



## **1.9 Tax treatment of recipients of last resort assistance**

Under existing rules, last resort assistance covering the basic needs of the recipient and his family is taxable. However, since September 1, 1997, Québec families are entitled to a monthly allowance that takes into consideration, among other things, the recognized essential needs of the children, and the amount paid through this new family allowance is not taxable.

In certain circumstances, last resort assistance may include additional amounts that cover the recognized essential needs of the children. In order to harmonize the tax treatment of these increases with those found in the new family allowance, the tax legislation will be amended to exclude the following amounts from the income of the individual who receives them:

- the increase to remedy deprivation;
- the transitional increase in respect of minor children;
- the increase in respect of major children who are full-time students;
- the increase in respect of the dependent children of people claiming refugee status.

This amendment will apply as of the 1998 taxation year.

## **2. MEASURES CONCERNING BUSINESSES**

### **2.1 Corporate taxation reform**

The paper entitled “Corporate Taxation Reform”,<sup>1</sup> tabled with the current Budget Speech, contains many measures which will combine to substantially reduce the tax burden on Québec businesses, particularly the fixed tax expenses of small and medium-sized businesses (SMBs). Changes allowing the government to partially finance these measures will also be made to the corporate tax system. These changes are as follows:

- reductions in the rates of employer contributions to the Health Services Fund as of July 1, 1999 and July 1, 2000;
- increase in the threshold for the application of restrictions on obtaining full input tax refunds, as of July 1, 1999;
- elimination of the small business deduction as of July 1, 1999, thus setting a single tax rate for a corporation’s eligible business income;
- elimination, as of July 1, 1999, of the refundable tax credit for losses;
- improved tax holiday for new corporations;
- increase in the rate of the dividend tax credit.

The application details of all these changes, as well as the applicable transition rules, if any, will be made public during the year, in a *ministère des Finances* Information Bulletin.

### **2.2 Extension of and changes to the refundable tax credit for on-the-job training**

A business that accepts an intern or apprentice for an eligible training internship is entitled to a refundable tax credit of 40% (20% for an unincorporated business). The expenditures eligible for this tax credit include wages the business pays to the interns or apprentices it accepts, and the wages paid to employees who supervise internships.

Under existing tax legislation, application of this measure is limited to internships beginning before January 1, 1999.

Changes will be made to this tax measure to extend the period of its application, foster the development of the apprenticeship plan and clarify the rules applicable to interns registered in a post-secondary studies program.

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<sup>1</sup> This paper details the changes that will be made to the tax system.

### **2.2.1 Extension of the application period of the tax credit**

The application period of this measure is extended for three years. Accordingly, a refundable tax credit for on-the-job training can be claimed for eligible expenditures made as part of an eligible training internship beginning before January 1, 2002.

### **2.2.2 Improvement of the tax credit for the apprenticeship plan**

The terms and conditions currently in effect for internships undertaken by apprentices registered in the apprenticeship plan set up under the *Act to foster the development of manpower training* set a cap on eligible expenditures of \$500 per week per apprentice, and set a maximum of ten hours per week for training the apprentice.

The apprenticeship plan enables the apprentice to learn a trade while working under the supervision of an experienced worker, who must often devote a relatively substantial number of hours to the plan.

The tax legislation will accordingly be changed to provide more compensation for the true costs incurred by businesses that accept apprentices under the apprenticeship plan:

- the cap on expenditures eligible for the tax credit will be raised from \$500 to \$625 per week per apprentice;
- the maximum number of hours a week for training an apprentice will be raised from 10 to 20.

These measures will apply regarding an expenditure made after the day of the Budget Speech, in relation to an eligible training internship beginning after that day.

### **2.2.3 Clarifications for post-secondary candidates**

The terms and conditions that currently apply to internships undertaken by college students and university undergraduates will be changed to foster better support for interns and encourage the design of paid internships. Accordingly:

- training internships must be remunerated to be eligible, apart from the exclusion applicable to on-the-job training stipulated in the *Act respecting labour standards*;

- for the purposes of calculating the tax credit, for the length of an instruction program in which an intern is enrolled, a taxpayer will not be allowed, for a taxation year, to claim a tax credit for more than 20 weeks of internship, for such intern. This restriction will also apply, in the case where the taxpayer is an individual, to a person with whom he is not at arm's length at any time during the year and, in the case where the taxpayer is a corporation, with a corporation with which it is associated at any time during the year.

These changes will apply regarding an eligible expenditure made after the day of the Budget Speech, in relation to an eligible training internship beginning after that day.

## **2.3 Measures concerning scientific research and experimental development**

The Québec government has adopted a policy to increase scientific research and experimental development (R&D). Tax credits for R&D, all fully refundable, are the basis of this policy, which aims to make it particularly attractive to carry out R&D in Québec, compared with other jurisdictions.

These tax credits are calculated on the basis of the wages relating to R&D activities, when the R&D is carried out in-house, or on the basis of the eligible expenditure associated either with a contract concluded with an eligible university entity, an eligible public research centre or an eligible research consortium, or a pre-competitive research project. The dues or fees paid to an eligible research consortium are also covered by a tax credit. In addition, these R&D tax credits are not subject to Québec income tax.

TABLE 1.2

**TAX ASSISTANCE FOR R&D**

	SMB <sup>1</sup>	Large business
Deduction	The total amount of R&D expenditures is deductible in calculating corporate income. It is reduced by the federal tax credit paid for expenditures incurred.	
Refundable tax credit by type of research		
— In-house research	40% tax credit applicable to the first \$2 million of eligible wages. <sup>2</sup>	Refundable 20% tax credit on eligible wages.
— Research carried out by a university entity or a public research centre	Refundable 40% tax credit on a total amount equal to 80% of the eligible R&D expenditure.	
— Research carried out by a research consortium		
— Pre-competitive research	40% tax credit on the eligible R&D expenditure.	

1 An SMB is a corporation whose assets are less than \$25 million.

2 For corporations which carry out in-house research and with assets of between \$25 million and \$50 million, the 40% rate declines linearly until it reaches 20%.

Lastly, a foreign researcher can claim a tax exemption, in the form of a deduction in calculating taxable income, on the wages he is paid.

### ***2.3.1 Tax benefits for certain post-doctoral internships***

Under the existing tax rules, a person who is not a resident of Canada and who comes to work in Québec under an R&D project can claim, for a maximum of two years, a tax exemption on the wages paid to him as a foreign researcher. This exemption takes the form of a deduction in the calculation of the foreign researcher's income. In general, the employer of such a researcher must be a corporation which carries on a business in Canada, is not tax exempt and is not an eligible university entity.

Furthermore, the tax legislation stipulates that the excess over \$500 of the total amount of bursaries paid to an individual must be included in calculating his income for the taxation year during which he received them.

## Two-year tax holiday

Within university research groups, post-doctoral interns are often key components because of their significant contribution to the excellence of R&D activities. To increase the capacity of Québec universities to recruit foreign post-doctoral interns, the deduction relating to a foreign researcher will be expanded to grant eligibility for this measure to certain foreign post-doctoral interns who conclude an employment contract with a new category of eligible employers consisting of eligible university entities and eligible public research centres already recognized for the purpose of the tax measures relating to R&D.

Accordingly, for the purpose of the deduction relating to a foreign researcher, a foreign researcher will also include an individual who, after the day of the Budget Speech, takes up his duties as an employee with this new category of eligible employers, under a contract of employment concluded after that day, regarding which the employer has obtained a certificate from the ministère de l'Éducation du Québec (MEQ) certifying that this individual is specialized in pure or applied sciences or in a related field and that he has a doctorate. In addition, such an individual will have to satisfy the following conditions:

- he must not reside in Canada immediately before the conclusion of the contract of employment or immediately before he assumes his duties;
- he must work continuously and almost exclusively for the eligible employer;
- his duties must consist almost exclusively in carrying out R&D activities as an employee.

## Exemption for certain bursaries

Lastly, to attract interns to Québec to carry out post-doctoral research, a post-doctoral research scholarship awarded by the MEQ to a foreign national under the Québec bursaries of excellence program will be subject, as of taxation year 1998, to a deduction in calculating the taxable income of the individual to whom it is awarded.

### ***2.3.2 Designation of new eligible public research centres***

A refundable tax credit of 40% is currently granted to a taxpayer for R&D activities carried out by an eligible public research centre under an eligible research contract with such centre.

The following centres will be recognized as eligible public research centres:

- the Institut de chimie et de pétrochimie du Collège Maisonneuve;
- the Centre de recherche et de développement en horticulture (CRDH);
- the Centre de recherche et de développement sur le bovin laitier et le porc;
- the Centre de recherche et de développement sur les sols et les grandes cultures;
- the Laboratoire d'hygiène vétérinaire et alimentaire;
- the Centre multifonctionnel de recherche en alimentation (CMRA) of the Institut de tourisme et d'hôtellerie du Québec.

Recognition of these centres will apply regarding R&D carried out after the day of the Budget Speech, under an eligible research contract concluded after that day.

### ***2.3.3 Streamlining of rules relating to sub-contracting***

In general, when a taxpayer carries out, or causes to be carried out on its behalf, R&D work, it can claim, for a taxation year, a refundable tax credit of 20%, or 40% in the case of an SMB.

This tax credit is calculated either on the wages it pays its employees of an establishment located in Québec regarding R&D carried out during the year, or, if it causes the R&D to be carried out on its behalf by a person with whom it is not at arm's length, on a portion of the cost of the contract attributable to the wages paid by such person to the employees of his establishment located in Québec for the R&D carried out by them during the year. A separate rule is stipulated when the contract is concluded with a third party with whom the taxpayer is at arm's length. The amount used as the basis for the calculation of the tax credit is then equal to half the cost of the contract.

As part of the R&D work entrusted to a sub-contractor, certain situations may occur in which the taxpayer's sub-contractor arranges with a third party all or part of the initial contract. In such a case, the taxpayer is not entitled to the tax credit regarding the portion thus entrusted to a third party and, furthermore, the sub-contractor cannot be entitled to it either since its R&D expenditure is reduced by the amount of the contractual payment it received from the taxpayer.

To prevent the refundable tax credit, which would otherwise be granted had the contract been entrusted directly to the third party by the taxpayer, from being lost, a technical change will be made to the refundable tax credit on R&D wages, but only in the case where the taxpayer who causes R&D work to be carried out on its behalf concludes an R&D contract with a person or partnership with whom it is not at arm's length (hereunder called the "first related sub-contractor").

Accordingly, when all or part of the consideration the taxpayer pays to the first related sub-contractor is paid again to one or more second-level sub-contractors under one or more sub-contracts, the taxpayer will be able to claim the tax credit for such other contract or contracts, according to the rules otherwise applicable for the purposes of the tax credit on R&D wages, as if it had concluded them directly himself as principal.

This change will apply to R&D carried out after the day of the Budget Speech under a contract concluded after that day.

### ***2.3.4 Introduction of a special tax***

For the purpose of the refundable tax credits for R&D, assuming an amount pertaining to R&D wages, to consideration paid as part of a contract, to an eligible expenditure or to an eligible contribution, as the case may be, regarding which a tax credit has been allowed, is refunded to the eligible taxpayer or to the partnership of which it is a member, the tax credit thus granted will be recovered by means of a special tax. For this purpose, rules similar to those currently applicable as part of the tax credit for on-the-job training will be implemented.

This measure will apply regarding a refund received after the day of the Budget Speech.

## **2.4 Measures to assist business capitalization**

### ***2.4.1 Higher asset limit for the eligibility of a corporation for the stock savings plan***

In general, the stock savings plan (SSP) enables an individual to deduct, in calculating his taxable income for a taxation year, the cost of shares acquired under the plan no later than December 31 of the year. The main objective of the plan is to help improve the capitalization of those Québec businesses most in need of capital.

The rate of deduction to which common shares issued by a corporation eligible for the SSP entitle the taxpayer is generally equal to 100% of their cost. However, the amount an individual can deduct, for a year, cannot exceed 10% of his total income for the year. Employees who acquire eligible securities of a corporation as part of an employee stock ownership plan are



entitled to an additional deduction of 25%. Furthermore, an investment fund can, under certain conditions, issue securities eligible for the SSP. A regional venture capital corporation is also a corporation eligible for the SSP.

Under the current terms and conditions of the SSP, the assets of a corporation which intends to make a public share offering under this plan must be less than \$250 million, including the assets of corporations with which it is associated during the 12 months preceding the date of the receipt for the final prospectus or prospectus exemption. This \$250-million limit was set in 1991, when the SSP was overhauled.

To help more growth corporations obtain access to the SSP, this limit will be raised to \$300 million for any public share offering for which the receipt for the final prospectus or prospectus exemption is granted after the day of the Budget Speech.

### ***2.4.2 Simplification and standardization of tax assistance relating to Québec Business Investment Companies***

The Québec Business Investment Company (QBIC) program is designed to provide Québec SMBs with access to sources of outside financing for their development.

In general, a QBIC is a private corporation whose activities consist mainly in acquiring and holding shares of the capital stock of small and medium-sized private corporations operating in eligible sectors of activity.

When a QBIC makes an eligible investment, the individuals who are shareholders can claim a deduction equal to 125% of the cost of the shares they have acquired. In addition, further deductions can be claimed when the QBIC invests in an eligible region or when its shareholders are all employees of the corporation receiving the investment (Employee QBIC).

A venture capital corporation which is a shareholder of a QBIC can receive a tax credit equal to 20% of the acquisition cost of the shares of the QBIC when the latter makes an eligible investment, or 25% if the QBIC invests in an eligible region.

To simplify the QBIC program and increase its impact, the legislation will be changed to eliminate:

- the notion of Employee QBIC;
- the notion of eligible region;
- the possibility for a venture capital corporation being a shareholder of a QBIC.

In addition, to provide the same amount of assistance to all QBIC investments, regardless of the region where they are made, the legislation will be changed so that, henceforth, the rate of the deduction granted to QBIC shareholders will in all cases be 150%.

These changes will apply to any investment made by a QBIC after the day of the Budget Speech.

## **2.5 Measures to support the growth of Québec's financial sector**

### ***2.5.1 Improved tax benefits relating to international financial centres***

The following tax benefits are granted to a corporation which operates an international financial centre (IFC) in Montréal:

- a tax exemption on the profits from eligible international transactions;
- an exemption from the tax on capital regarding the paid-up capital reasonably attributable to IFC operations;
- an exemption from contributions to the Health Services Fund (HSF) regarding the wages paid to IFC employees;

Furthermore, an individual employed by a corporation which operates an IFC can claim, under certain conditions, an income tax exemption regarding an amount that can reach one third of the remuneration paid to him for services he provides in this regard. In addition, an individual employed by a corporation which operates an IFC, who specializes in international financial transactions and who, immediately before the signing of his employment contract or the assumption of his duties as an employee of the corporation operating the IFC does not reside in Canada, can claim a total income tax exemption for a period of two years.

### **Tax and normative provisions relating to IFCs to be consolidated in a separate statute**

Currently, the various rules applicable to IFCs are contained in Québec's tax legislation and regulations. However, the objectives of the measures relating to IFCs are not stated in any legislation. Furthermore, the procedures for obtaining or revoking an IFC certificate or IFC employee certificate, as well as the powers and obligations of the CFI Montréal-Centre Financier International agency concerning the measures relating to IFCs are not stipulated in any legislative provision.

To help promote these measures, all the rules applicable to IFCs will be grouped in a separate statute.

In addition, this statute will specify the objectives of the measures relating to IFCs, namely to facilitate, in particular through tax benefits, the establishment, development and maintenance in Montréal of businesses specializing in international financial transactions, including international insurance activities, to foster Montréal's development as an international finance centre.

To make the process of issuing and revoking a certificate issued by the Minister of Finance more transparent, the new legislation will stipulate the applicable rules in this regard. This new legislation will also specify the status, role and functions of the CFI Montréal-Centre Financier International agency notably concerning the promotion and monitoring of measures relating to IFCs.

Lastly, this new legislation will stipulate that the government can make regulations, notably to accept new activities as eligible international transactions.

This new legislation will take effect on the date it is assented to.

### **Broadening of eligible activities**

For a business or portion of a business to be recognized as an IFC, all of the activities exercised by a corporation as part of this business or portion of this business must bear on prescribed international transactions, i.e., those identified in the tax regulations.

To encourage the establishment of more IFCs in Montréal, as well as the development of operations of existing IFCs, the list of eligible international transactions will be broadened to include new activities. In addition, the applicable conditions regarding certain activities will be changed.

#### **• New activities**

More specifically, the following activities will now be considered eligible international transactions:

- fiduciary services on behalf of a person who is not a resident of Canada;
- factoring services, when the debts in question are payable by a person who is not a resident of Canada;
- lease financing services supplied to a holder who is not a resident of Canada, in relation to the use of an asset outside of Canada;

- promotion activities for an eligible investment fund whose units are intended for sale to persons who are not residents of Canada or to persons who are residents of Canada if such fund consists of securities described below or of securities relating to a foreign entity, provided that the management of this eligible investment fund, the administration activities relating to the units of the eligible investment fund are carried out in Montréal, either by a corporation operating an IFC, or by another person;
- administration activities relating to units of an eligible investment fund, in regard to persons who are not residents of Canada, or in regard to persons who are residents of Canada if the securities of the eligible investment fund are securities described below or securities relating to a foreign entity, provided that the promotion activities and management activities of the eligible investment fund are carried out in Montréal, either by a corporation operating an IFC, or by another person;
- management activities of an eligible investment fund<sup>2</sup> whose units are sold to persons who are not residents of Canada, or to persons who are residents of Canada in the case of the securities described below or securities relating to a foreign entity, provided the promotion activities of such eligible investment fund and the administration activities relating to units of such eligible investment fund, are carried out in Montréal by the corporation operating an IFC or by another person;
- the distribution activities of the units of an eligible investment fund, among persons who are not residents of Canada, or among persons who are residents of Canada if such fund consists of the securities described below or securities relating to a foreign entity, provided the promotion activities and the management activities of such eligible investment fund, as well as the administration activities relating to units of such eligible investment fund, are carried out in Montréal by the corporation operating an IFC or by another person;
- administrative support activities:
  - on behalf of a corporation operating an IFC, in relation to eligible international transactions carried out by such other corporation;
  - on behalf of a financial corporation, in relation to financial transactions of such corporation involving either a person who is a resident of Canada and one or more persons who are not residents of Canada, or exclusively persons who are not residents of Canada;

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2 Such activities may already constitute eligible international transactions, but the eligibility conditions for this purpose will be specified.

- on behalf of another person in relation to transactions which, within the meaning of the new legislation relating to IFCs, constitute eligible international transactions.

More specifically, the administrative support activities carried out by a corporation operating an IFC, relating to otherwise eligible international transactions it carries out, also constitute eligible international transactions.

The expression “promotion activities” for an eligible investment fund will mean the design and creation activities of an eligible investment fund, including research, formulation and dissemination of a prospectus for the fund, registration of the fund with a securities oversight organization such as the Commission des valeurs mobilières du Québec, as well as the marketing of the fund and organization of the distribution of fund units.

The expression “administration activities” in relation to the units of an eligible investment fund, will mean the customer account administration activities for holders of units of the eligible investment fund.

The expression “distribution activities” in relation to units of an eligible investment fund will mean all operations relating to the sale of units of the eligible investment fund.

The expression “management activities” of an eligible investment fund will mean the management activities of all or part of the assets of such fund.

The expression “eligible investment fund” will mean an investment fund which is a mutual fund, as understood in the *Securities Act*, either an open-ended investment company, as understood by the Act, or a segregated fund of a life insurance company, constituted under a by-law of such insurance company.

The expression “financial corporation” will mean a financial institution subject to Part IV or Part VI of the *Taxation Act*, or which would be subject to either of these parts if the corporation carried on a business in Québec.

More specifically, the administrative support activities that can be carried out by a corporation operating an IFC will be activities, services, operations or transactions such as the registration of transactions, custody of securities, issuing and administration of insurance policies, accounting of transactions, processing of cheques and credit card transactions, transfer of securities and funds, printing of bank statements, collection of debts and processing of claims.

The securities referred to previously are the following:

- a security listed on the International Options Market, Mercantile or International divisions of the Montréal Exchange, where the operation bearing on such security is executed;

- a security of a Canadian corporation if the operation bearing on such security is carried out on an organized securities market located outside Canada;
- a security of the Canadian government or of a province, including their government corporations, which is not a security governed by Canadian law;
- a security of a government of a foreign country, a political subdivision of such country or a corporation which is not a Canadian corporation.

- **Other changes**

- **Activities relating to the distribution of units of an eligible investment fund**

While the activities relating to the distribution of units of an eligible investment fund can constitute an eligible international transaction, in fact that is not the case.

Before a person can carry out such activities within an IFC, the *Securities Regulations* requires that unrestricted practice registration be obtained.

These regulations will accordingly be changed so that a person who expects to limit himself to activities which constitute eligible international transactions will no longer be required to register as an unrestricted practice broker or adviser simply because such activity is carried out as part of an IFC. Accordingly, a restricted practice broker or adviser will now be able to operate an IFC.

- **Operation of a clearing house**

Under existing rules, the operation of a clearing house constitutes an eligible international transaction only for transactions bearing on listed securities traded as a broker as part of international transactions.

The requirement regarding listed securities limits the possibilities of establishing clearing houses in Montréal in sectors other than the securities sector.

This requirement is eliminated. Consequently, the operation of a clearing house for transactions either for a person who is a resident of Canada and one or more persons who are not residents of Canada, or exclusively for persons who are not residents of Canada will henceforth constitute an eligible international transaction.

- **Acceptance and issuing of letters of credit**

Under existing rules, the acceptance or issuing of a letter of credit can, under certain conditions, constitute an eligible international transaction. However, the acceptance or issuing of a letter of credit to finance Canadian exports or imports to Canada does not constitute an eligible international transaction.

This restriction is eliminated. Consequently, the acceptance or issuing of a letter of credit on behalf of a person who is not a resident of Canada and for which the payment is the responsibility of a person who is not a resident of Canada will henceforth constitute an eligible international transaction.

- **Services of financial assembly**

Under existing rules, services of financial assembly regarding a project to be undertaken exclusively outside Canada constitute an eligible international transaction.

The legislation in this regard will be amended to allow a portion of a project to be carried out in Canada. Accordingly, services of financial assembly regarding a project to be carried out almost entirely outside Canada will henceforth constitute eligible international transactions.

A change will also be made to specify that services of financial assembly regarding such a project can be provided or made on behalf of a person related to the corporation which operates an IFC.

Lastly, the meaning of the expression “services of financial assembly” will be clarified to refer to services such as:

- financial engineering, which consists in guiding a client through the entire process of financing development projects; and
- financial consulting services, which consist of technical assistance for financing projects in other countries, including the services relating to strategic planning, term financing through private placements, privatization of operations as far as the financial aspect is concerned, presentation of financial information to lenders, the negotiation of short-term credit contracts, the setting-up of the international treasury organization, and the acquisition and merger of companies, as far as the financial aspect is concerned.

- **Treasury administration activities**

The legislation will also be changed to recognize treasury administration activities regarding activities carried out almost exclusively outside Canada as eligible international transactions.

In addition, treasury administration activities regarding such activities may be carried out on behalf of a person related to the corporation operating an IFC.

For this purpose, the expression “treasury administration activities” will mean, in particular, the activities which consist in managing and directing flow-of-funds operations, including risk management (market, exchange and interest rate), as well as the management of financing operations.

- **Technical changes**

Technical changes will also be made to dispel any ambiguity concerning the recognition of the activities of principals as eligible international transactions and the absence of applicable restrictions regarding the exchange transactions carried out by a corporation operating an IFC.

Furthermore, changes will be made to specify that the requirement that the administration of activities enabling the carry out of eligible international transactions be effected in Montréal, as well as the requirement that the activities of a corporation operating an IFC be grouped within the same place in Montréal, concern only the activities undertaken by the corporation operating an IFC and not the activities undertaken by another person.

- **Application date**

These changes will apply to activities carried out after the day of the Budget Speech .

### **Extension from two to four years of the tax exemption period for foreign specialists**

Briefly, an individual who is a specialist in international financial transactions and who, immediately before the signing of his contract of employment or the assumption of his duties as an employee of a corporation which operates an IFC, is not a resident of Canada can claim a total income tax exemption for a period of two years.

To further encourage foreign specialists to come to Montréal and remain there, the period during which such specialists can claim an income tax exemption will be increased to four years.

More specifically, however, only an individual specializing in eligible international transactions other than administrative support activities will be able to claim this income tax exemption.

These change will apply regarding an individual who assumes his duties for the first time as an employee of a corporation which operates an IFC, after the day of the Budget Speech.



These change will also apply regarding an individual who, the day of the Budget Speech, assumed his duties for the first time, as an employee of a corporation operating an IFC less than four years previously. However, such an individual will be covered by the extension of the period of exemption from income tax only the portion of the period of four years previously described which follows the day of the Budget Speech.

Lastly, a technical change will also be made to specify that a foreign specialist in insurance can, if he satisfies the conditions otherwise stipulated, claim this income tax exemption.

### **Easing of the requirement that the activities of an IFC be located in a separate place**

Under the existing rules, a corporation which wants to obtain the tax benefits described above must operate a business all or part of which is recognized as an IFC.

Briefly, a business or part of a business is recognized as an IFC if, in particular, the activities bearing on eligible international transactions are located in a place separate from the one where the other activities, if any, of the corporation are carried out.

The legislation will be changed to eliminate this requirement and stipulate instead that the activities of a corporation operating an IFC will have to be located in the same place in Montréal.

This change will apply as of the day following the day of the Budget Speech.

### **Easing of eligibility conditions for the partial income tax exemption for employees**

Currently, the duties of an individual regarding a corporation operating an IFC of which he is an employee must in fact be devoted in a proportion of at least 90% to the operations of the IFC for him to be able to claim an income tax exemption. In the case of a foreign specialist, the exemption is total, but for a limited time. In the case of other employees, the exemption is partial.

More specifically, the exemption an employee other than a foreign specialist can claim, for a year, is granted as a deduction, in calculating his taxable income, of the lesser of the following amounts:

- 50% of his base wage for the year from his employment with the corporation operating the IFC;
- the total of eligible allowances he receives from such corporation during the year.

In practice, this deduction generally corresponds to one third of the remuneration paid to the employee by the corporation operating an IFC.

To simplify the details for determining the deduction an employee other than a foreign specialist is entitled to, the criterion relating to the granting of an eligible allowance is eliminated. Accordingly, such an individual will be able to deduct, in calculating his income for a taxation year, an amount not exceeding one third the remuneration he will have received, for such year, from the corporation operating an IFC.

In addition, the criterion concerning the proportion of duties to be devoted to the operations of the IFC for an employee to be able to claim an income tax exemption will be eased, falling from 90% to 75%. This streamlining will apply both to the foreign specialist and the employee other than such a specialist.

These changes will apply as of taxation year 1998.

### **Automatic inclusion of deductions granted to employees of an IFC for the purposes of calculating source withholdings**

Under the current rules, a person who pays a salary, wage or other remuneration to one of his employees must make source withholdings, regarding the amount thus paid, for income tax and the contribution to the Québec Pension Plan payable by the employee.

When an employee of a corporation operating an IFC wishes that the deductions he is entitled to in this regard be included in determining the amount to be withheld by his employer as income tax, he must submit a request to that effect to the Minister of Revenue. If the Minister of Revenue believes that the deduction or withholding of the amount stipulated by the tax legislation could impose an undue tax burden on the employee, he can determine that a lower amount be withheld at source.

The legislation will be amended so that the inclusion of the deductions to which an employee of a corporation operating an IFC is entitled is automatic.

More specifically, the amount an employer must henceforth withhold at source for income tax payable by an employee, regarding the remuneration paid to such employee for a pay period during which he satisfies the conditions for claiming a deduction as an employee of a corporation operating an IFC will be established according to the portion of such income subject to no such deduction.

This change will apply regarding the remuneration paid by a corporation operating an IFC, to its employees, after 1998.

## **Introduction of a refundable tax credit relating to period of apprenticeship of young specialized employees**

Corporations operating an IFC have difficulty recruiting and retaining employees specialized in eligible international transactions, in particular because of the attraction exerted by financial centres outside Québec. Now, an employee's apprenticeship period in eligible international transactions requires a substantial investment.

To encourage the development of a new generation of specialists in international transactions, a new refundable tax credit is introduced.

More specifically, a corporation operating an IFC and which, during a taxation year, is the employer of an eligible specialized employee will be able to claim a tax credit equal to 40% of the eligible wage paid to such an employee, during such year, for any week included in the period covered by an eligibility certificate issued for such eligible specialized employee.

- **Eligible specialized employee**

An "eligible specialized employee" of a corporation operating an IFC will mean an individual who is an employee of an establishment in Québec of such corporation, whose employment contract stipulates at least 15 hours of work per week and who is not a specified shareholder of such corporation.

In addition, the duties of this individual with the corporation operating an IFC must be devoted, in a proportion of at least 75%, to the following tasks:

- carrying out eligible international transactions other than administrative support activities;
- assisting, using specific skills in eligible international transactions, an individual who carries out eligible international transactions other than administrative support activities;
- directing or supervising the activities of an individual who carries out eligible international transactions.

Accordingly, only the employees directly involved in implementing eligible international transactions carried out by the corporation operating an IFC will constitute eligible specialized employees for the purposes of this tax credit.

However, for greater clarity, a foreign specialist will not constitute an eligible specialized employee for the purposes of this tax credit.

In addition, an individual can qualify as an eligible specialized employee for a given week, provided he holds an eligibility certificate issued by the Minister of Finance for such week and the certificate has not been revoked. In addition, he must not be older than 35 at the end of such week.

- **Eligible wage**

The “eligible wage” paid to an eligible specialized employee for a week will be the employment income of the individual for such week, calculated according to the *Taxation Act*, paid by the corporation operating an IFC of which he is an employee and regarding which he can claim a partial income tax exemption.

However, such income must be reduced by the amount of any government assistance, non-government assistance and benefit or advantage, according to rules similar to those applicable for the tax credit for R&D wages.

Furthermore, the amount of eligible wage regarding which a tax credit can be granted for an eligible specialized employee for the period that is covered by the certificate of eligibility issued regarding such employee and included in a taxation year of a corporation operating an IFC will be limited to \$62 500 per eligible specialized employee, calculated on an annual basis. The amount of the tax credit, for a taxation year, accordingly cannot exceed \$25 000 per eligible specialized employee.

- **Eligibility certificate**

An “eligibility certificate” issued regarding an eligible specialized employee will mean a certificate issued by the Minister of Finance, regarding an individual employed by a corporation operating an IFC, and certifying the following items:

- the individual holds a university diploma in a discipline relevant to eligible international transactions;
- at the beginning of the period covered by the first certificate issued regarding such individual, he has held such a diploma for no more than four years.

This certificate will also state the period for which the individual can qualify as an eligible specialized employee. However, such period cannot exceed three years. Accordingly, assuming several certificates are issued for an individual, when he changes employer for instance, such period will end no later than three years after the beginning of the period covered by the first certificate issued regarding such individual.

- **Other application details**

Assuming a wage expenditure regarding which a tax credit has been granted is refunded to the corporation operating an IFC, the tax credit will be recovered according to rules similar to those applicable under the tax credit for on-the-job training.

Furthermore, this tax credit may not be applied to reduce the instalments that must be paid, if any, by the corporation operating an IFC.

A corporation operating an IFC and which wishes to claim this tax credit for a taxation year must enclose with its tax return for such year a form prescribed by the Minister of Revenue as well as a copy of the eligibility certificate issued for eligible specialized employees for which it claims a tax credit.

Lastly, the wages regarding which a tax credit is claimed by a corporation operating an IFC must have been paid at the time of the claim for a tax credit.

- **Application date**

This measure will apply to the eligible wage paid by a corporation operating an IFC, after the day of the Budget Speech, to eligible specialized employees for which an eligibility certificate is issued after this day and before January 1, 2002.

### **Introduction of a refundable tax credit for solicitation expenditures**

Solicitation activities, which essentially consist in seeking new clients or new activities, enhance Montréal's profile as an international finance centre. However, such activities involve large expenditures for which no particular tax benefit is currently granted.

Considering the importance of such activities for the development of IFCs in Montréal, tax assistance will be granted to corporations operating an IFC, for solicitation expenditures that help bring new eligible international transactions to Montréal.

More specifically, this tax assistance will be provided as a refundable tax credit and will be granted, for a taxation year, to a corporation operating an IFC which, during such taxation year, receives eligible fees for carrying out new eligible international transactions in Montréal.

- **Details of determination of the tax credit**

Subject to the rules described below, the tax credit a corporation operating an IFC can claim for a taxation year will be equal to 50% of the amount of eligible solicitation expenditures incurred by the corporation during such year and the preceding two taxation years.

However, the maximum amount of tax credit a corporation operating an IFC can claim for a taxation year will be limited to an amount equal to 25% of the eligible fees of the corporation operating an IFC for such year, earned from carrying out new eligible international transactions.

The maximum amount of this tax credit for a taxation year will also be limited to a fixed amount, namely \$75 000 calculated on an annual basis.

- **Eligible solicitation expenditures**

The “eligible solicitation expenditures” incurred by a corporation operating an IFC will mean the expenditures incurred by such corporation in the course of carrying on the business or part of the business recognized as an IFC, provided they are reasonable in the circumstances, are related to solicitation activities carried out with persons who are not residents of Canada and correspond to the following expenses:

- the travel expenses of an employee of the corporation, from Canada to another country and from another country to Canada;
- the lodging expenses of such employee, for the period of his stay outside Canada and during which he carries out solicitation activities with persons who are not residents of Canada;
- the portion eligible as a deduction, in calculating the corporation’s income, of expenses for food or beverages consumed by such employee or his host during the period described in the preceding sub-paragraph.

The total amount of eligible solicitation expenditures incurred by a corporation operating an IFC, for a given period of three taxation years must nonetheless be reduced by the amount of eligible solicitation expenditures regarding which a tax credit has been granted for a taxation year prior to the one for which a tax credit is claimed. For this purpose, a tax credit will be deemed to have been granted, for a taxation year, regarding eligible solicitation expenditures incurred during the second taxation year preceding such year.

In addition, the total amount of eligible solicitation expenditures incurred by a corporation operating an IFC must also be reduced by the amount of any government assistance, any non-government assistance and any benefit or advantage, in accordance with rules similar to the ones applicable for the purposes of the tax credit for R&D wages.

- **New eligible international transactions**

The “eligible international transactions” carried out by a corporation operating an IFC, for a taxation year, will mean the eligible international transactions carried out by the corporation, during such year, relating to solicitation activities it has carried out previously on behalf of a person who is not a resident of Canada, under a service agreement with a term of at least one year. In addition, such eligible international transactions must constitute a type of activity which the corporation operating an IFC, or a taxpayer not at arm’s length with such corporation, did not carry out on behalf of such person during the preceding three taxation years.

Furthermore, the eligible international transactions carried out by a corporation operating an IFC, during a taxation year, will constitute new eligible international transactions, for the purpose of this tax credit, only for the period of 365 days following the effective date of the service agreement under which such transactions are carried out.

- **Eligible fees**

The “eligible fees” earned from carrying out new eligible international transactions, for a taxation year, will mean the fees earned by the corporation operating an IFC for carrying out such activities, for the portion of the period of 365 days described above and included in that year.

- **Administrative details**

A corporation operating an IFC and wishing to claim this tax credit for a taxation year will have to include with its tax return for such year a form prescribed by the Minister of Revenue.

In addition, it will have to show, to the satisfaction of the Minister of Revenue, that the eligible solicitation expenditures regarding which a tax credit is claimed are related to solicitation activities carried out with persons who are not residents of Canada and that the new eligible international transactions are carried out by the corporation.

A corporation operating an IFC must accordingly keep appropriate vouchers in this regard, and the Minister of Revenue may demand any other information he considers relevant before granting the tax credit claimed by the corporation.

- **Other application details**

More specifically, the solicitation activities carried out by a corporation operating an IFC do not, of themselves, constitute eligible international transactions, unless such activities are carried out regarding eligible international transactions which the corporation operating an IFC undertook or plans to undertake.

Furthermore, assuming an eligible solicitation expenditure regarding which a tax credit has been granted is refunded to the corporation operating an IFC, the tax credit thus granted will be recovered in accordance with rules similar to those applicable for the purposes of the tax credit for on-the-job training.

Lastly, this tax credit cannot be applied to reduce the tax instalments, if any, that must be paid by the corporation operating an IFC.

- **Application date**

This measure will apply regarding eligible solicitation expenditures incurred after the day of the Budget Speech and before January 1, 2002, in relation to new eligible international transactions carried out before January 1, 2003.

**A ten-year guarantee**

The measures relating to IFCs are permanent, in the sense that the legislation does not set a termination date for these measures.

However, providing a guarantee as to the duration of the tax benefits granted a corporation operating an IFC instills greater confidence in investors and, in the long run, will promote the development of Montréal as an international finance centre. In this context, the government undertakes to maintain, for ten years, some of the tax benefits currently granted to corporations operating an IFC.

More specifically, the government undertakes to maintain, at least until December 31, 2008, the following tax benefits currently granted to a corporation operating an IFC:

- the tax exemption on the profits earned from eligible international transactions;
- the exemption from the tax on capital regarding the paid-up capital reasonably attributable to the operations of the IFC ;
- the exemption from HSF contributions regarding the wages paid to employees of the IFC.

**Changes to the eligibility criteria for the partial income tax exemption**

Under existing rules, the employees of a corporation operating an IFC who enjoy a partial income tax exemption must devote a substantial portion of their duties to the operations of the IFC. However, the legislation does not specify any condition or restriction as to the nature of the duties carried out by an employee.

To more precisely target the tax benefits granted to employees other than foreign specialists, the legislation will be amended so that only those employees directly involved in carrying out eligible international transactions undertaken by a corporation which operates an IFC can claim a partial income tax exemption.



More specifically, the employees considered to be directly involved in carrying out eligible international transactions will be those whose duties with the corporation operating an IFC are devoted, in a proportion of at least 75%, to the following tasks:

- carrying out eligible international transactions other than administrative support activities;
- assisting, using specific skills in eligible international transactions, an individual who carries out eligible international transactions other than administrative support activities;
- directing or supervising the activities of an individual who carries out eligible international transactions other than administrative support activities.

These changes will apply as of taxation year 1998. However, to minimize the impact of these changes, employees currently employed by a corporation operating an IFC and who enjoy a partial income tax exemption will continue to do so, if they continue to be employed by such corporation, if a certificate is issued in their regard by the Minister of Finance and they satisfy the other applicable conditions.

### **Technical change concerning the eligibility for refundable tax credits of corporations which operate an IFC**

Under the current rules, a corporation which derives all or virtually all of its gross income from the operation of an IFC generally cannot claim a refundable tax credit stipulated by the tax legislation.

The tax legislation will be changed to more precisely target the entitlement of a corporation which operates an IFC to claim a refundable tax credit. Accordingly, a corporation which operates an IFC during a taxation year henceforth will be denied such a refundable tax credit for such year, when the expenditure which would have entitled such corporation to such tax credit is incurred in the course of the operation of the business or part of the business recognized as an IFC. However, this restriction will not apply regarding a refundable tax credit granted exclusively to corporations which operate an IFC, the tax credit for the creation of investment funds and the tax credit relating to the apprenticeship period of young portfolio managers described below and the tax credit for the creation of investment funds described in sub-section 2.5.3.

This change will apply regarding a taxation year ending after the day of the Budget Speech.

### ***2.5.2 Introduction of a refundable tax credit relating to the apprenticeship period of young portfolio managers***

Portfolio management corporations established in Québec are having difficulty recruiting and retaining fund managers. Not only are financial centres outside Québec attractive to experienced professionals, but the training period for a fund manager can last many years.

To support the development of a new generation of portfolio managers, eligible portfolio management corporations will be able to claim a refundable tax credit regarding the wages paid to eligible young fund managers.

More specifically, an eligible portfolio management corporation which, during a taxation year, employs a fund manager with an eligibility certificate issued by the Minister of Finance will be able to claim a tax credit equal to 40% of the wages paid to such fund manager, during such year, for any week included in the period covered by the eligibility certificate issued in his regard.

#### **Eligible portfolio management corporation**

An “eligible portfolio management corporation”, for a given time of a year, will generally mean a corporation registered, at such time, with the Commission des valeurs mobilières du Québec as an unrestricted practice investment adviser.

#### **Eligible fund manager**

An “eligible fund manager” will mean an individual, other than a specified shareholder of the eligible portfolio management corporation which employs him, who satisfies the following conditions:

- his employment contract stipulates at least 15 hours of work per week;
- he devotes all or almost all his work time to fund management activities in an establishment of his employer located in Québec;
- he is no more than 35 years of age at the end of the work week for which his wages are paid;
- he has a university diploma in a relevant discipline or has successfully completed the course leading to the designation “certified financial analyst” (CFA) no more than four years previously, whichever came first, at the time an eligibility certificate is issued in his regard for the first time.

## Eligible wages

The “eligible wages” paid to an eligible fund manager, for a week, will mean the individual’s employment income, for such week, calculated according to the *Taxation Act* and paid by the eligible portfolio management corporation which employs him.

Such eligible wages must, however, be reduced by the amount of any government assistance, any non-government assistance and any benefit or advantage, according to rules similar to those applicable for the purposes of the tax credit on R&D wages.

Furthermore, the amount of the eligible wages for which a tax credit can be claimed regarding an eligible fund manager, for the period covered by an eligibility certificate issued in regard to such employee which is included in a taxation year of the portfolio management corporation, will be limited to \$62 500 per eligible fund manager, calculated on an annual basis. The amount of the tax credit, for a taxation year, accordingly may not exceed \$25 000 per eligible fund manager.

## Eligibility certificate

An “eligibility certificate” issued regarding an eligible fund manager will mean a certificate issued by the Minister of Finance, regarding an individual employed by an eligible portfolio management corporation, and certifying the following items:

- the individual holds a university diploma in a relevant discipline or has successfully completed the course leading to the designation “certified financial analyst” (CFA);
- at the beginning of the period covered by the first certificate issued regarding such individual, he has held such diploma or designation for no more than four years, whichever came first.

The certificate will also mention the period for which the individual can qualify as an eligible fund manager. However, such period cannot exceed three years. Accordingly, assuming several certificates are issued regarding an individual, for instance when he changes employer, such period will end no later than three years after the beginning of the period covered by the first certificate regarding such individual.

## Other application details

Assuming a wage expenditure regarding which a tax credit has been granted is refunded to the eligible portfolio management corporation, the tax credit thus granted will be recovered in accordance with rules similar to those applicable for the purposes of the tax credit for on-the-job training.

Furthermore, this tax credit may be applied against the instalments, if any, that must be paid by the eligible portfolio management corporation.

An eligible portfolio management corporation that wishes to claim this tax credit, for a taxation year, must include with its tax return, for such year, a form prescribed by the Minister of Revenue, as well as a copy of the eligibility certificate issued in regard to the eligible fund managers for whom it is claiming a tax credit.

Lastly, the wages regarding which a tax credit is claimed by an eligible portfolio management corporation must have been paid at the time the tax credit is claimed.

### **Application date**

This measure will apply regarding the eligible wages paid by an eligible portfolio management corporation, after the day of the Budget Speech, to eligible fund managers for whom an eligibility certificate is issued after that day and before January 1, 2002.

### ***2.5.3 New measures to foster the creation of investment funds***

To support the development of new investment funds administered and managed in Québec, tax assistance will be granted to eligible corporations which create such funds.

This tax assistance will be provided in the form of a refundable tax credit regarding eligible start-up costs incurred in relation to the creation of eligible investment funds, as well as a tax exemption regarding the income earned from their administration and management.

The expression “eligible corporation” will mean any corporation which, during a taxation year, carries on a business in Québec and has an establishment here. However, the following corporations will not be able to claim this tax assistance for a taxation year:

- a corporation more than 10% of whose gross income, for such year, is earned from a source other than the operation of an eligible business;
- a corporation which is exempt from tax for such year;
- a Crown corporation or a wholly-controlled subsidiary of such corporation;
- a corporation governed, during the year, by a statute incorporating a labour fund.

The expression “eligible investment fund” of an eligible corporation will mean an investment fund which is either a mutual fund, as understood in the *Securities Act*, incorporated under a pooled investment contract concluded by the eligible corporation after the day of the Budget Speech and before April 1, 2000, or an open-ended investment company, as understood in the Act, incorporated by the eligible corporation during such period, or a segregated fund of a life insurance company, incorporated pursuant to a bylaw of such insurance company also during such period. In addition:

- all or almost all the work regarding promotion and marketing relating to such a fund must be carried out in Québec;
- the fund must be managed and administered in Québec for a minimum of five years after its creation;
- the eligible corporation must have obtained an eligibility certificate, in relation to the creation of the fund, no later than the date it must file its tax return.

### **Tax credit**

The amount of the refundable tax credit an eligible corporation may claim for a taxation year, in relation to the creation of an eligible investment fund, will be equal to 50% of the eligible start-up expenditures it incurs, regarding the fund, during such year. However, this tax credit will be capped, regarding the fund, at \$250 000 for the entire period, described below, regarding which eligible start-up expenditures can be incurred in respect of the fund.

The expression “eligible start-up expenditure” of an eligible corporation, for a taxation year, regarding an eligible investment fund, will mean the expenditures it incurs:

- during such taxation year;
- that are attributable to the start-up and establishment of the fund, such as expenses for research, marketing, registration with securities commissions, promotion and distribution;
- no later than the end of the period of 730 days beginning on the date of the conclusion of the pooled investment contract if the investment fund is a mutual fund, the date of constitution if the investment fund is an open-ended investment company, or the date of the bylaw of the insurance company stipulating its creation if the investment fund is a segregated fund;
- regarding which the eligible corporation has obtained an eligibility certificate no later than the date it must file its tax return for the taxation year.

However, these eligible start-up expenditures must be reduced by the amount of any government assistance, any non-government assistance and any benefit or advantage, according to rules similar to those applicable for the purposes of the tax credit on R&D wages.

### **Five-year income tax exemption**

An eligible corporation can claim, for the period ending five years after the date of the conclusion of the pooled investment contract if the eligible investment fund is a mutual fund, the date of constitution if the eligible investment fund is an open-ended investment company, or the date of the bylaw of the insurance company stipulating its creation if the eligible investment fund is a segregated fund, an income tax exemption regarding the income earned from the administration and management of the eligible investment fund.

The “income earned from the administration and management of an eligible investment fund” of an eligible corporation will mean the income earned from the administration and management of such fund by the eligible corporation, calculated as if the administration and management of such fund constitute the operation of a separate business by the eligible corporation.

In the case where, for a taxation year of an eligible corporation, the period for which the income earned from the administration and management of a fund regarding which the eligible corporation may be eligible for a tax exemption is less than 365 days, the amount of the exemption applicable to such fund, for such taxation year, will be calculated in proportion to the number of days of such period compared with the number of days of operation of such fund by the eligible corporation for such taxation year.

### **Eligibility certificates**

The Minister of Finance will be responsible for issuing eligibility certificates which will indicate compliance by an eligible investment fund with the criterion bearing on the carrying out, in Québec, of the promotion and marketing work relating to the fund and with the criterion concerning administration and management in Québec. The eligibility certificates concerning eligible start-up expenditures will indicate compliance with the categories and amounts of expenditures qualifying as eligible start-up expenditures.

### **Other application details**

Assuming an eligible start-up expenditure regarding which a tax credit was granted is refunded to the eligible corporation, or if the criterion concerning the minimum period of five years is not respected, the tax credit granted will be recovered in accordance with rules similar to those applicable for the purposes of the tax credit for on-the-job training.

Because of the eligibility criterion concerning the minimum period of five years, an eligible corporation must, when it claims a tax exemption for a taxation year ending before the end of such minimum period, assume it will satisfy this criterion. Should it subsequently fail to do so, for a taxation year, the eligible corporation will have to correct the tax return it filed initially for such year.

More specifically, an eligible corporation which, because it fails to satisfy the time criterion, has benefited unduly from this tax exemption, for a taxation year, will have to file an amended tax return with the ministère du Revenu du Québec (MRQ) for such year and the prescriptive period, regarding this item, will only start to run from the day a new notice of assessment for such year is mailed.

In addition, this tax credit cannot be applied against the tax instalments, if any, that must be paid by the eligible corporation.

An eligible corporation wishing to claim a tax credit or tax exemption, for a taxation year, will have to enclose with its tax return, for such year, a form prescribed by the Minister of Revenue, as well as a copy of the eligibility certificate obtained regarding the eligible investment fund or the eligible start-up expenditures, as the case may be.

## **2.6 Refundable tax credits for film and television productions**

For many years now, the government has used the tax system as an important instrument for supporting Québec's film and television production industry. This approach has led to a continuing increase in the volume of production by independent firms and has stimulated their growth. By providing such businesses with assistance of up to 15% of their production budget, the refundable tax credit for Québec film and television production plays a key role in the development of this industry. In fact, it represents the largest source of public financing for productions in this sector. The parameters of this tax credit are given in the following table.

TABLE 1.3

**REFUNDABLE TAX CREDIT FOR QUÉBEC FILM AND TELEVISION PRODUCTIONS**

<b>Type of production</b>	<b>Nominal rate</b> (as a % of labour expenditures)	<b>Effective rate<sup>1</sup></b> (as a % of cost of production)	<b>Maximum credit per production or series</b> (in millions of dollars)
French-language feature film <sup>2</sup>	45	20 ¼	2.5
Specific documentary	45	20 ¼	2.5
Other production	33 ⅓	15	2.5

1 The effective rate is obtained by multiplying the nominal rate of the tax credit, expressed as a function of labour expenditures, and the rate of the maximum, expressed as a function of production costs.

2 To be eligible, the film must satisfy more stringent Québec content criteria than those normally required by SODEC. This category also includes feature film co-productions which satisfy certain criteria.

**2.6.1 Introduction of a refundable tax credit for film or television production services**

Last October 29,<sup>3</sup> the Minister of Finance of Canada released a draft amendment to the federal tax legislation and regulations concerning the refundable tax credit for film or video production services. On November 17, 1997,<sup>4</sup> the Minister of Finance of Ontario announced that foreign films shot in Ontario would receive tax assistance equivalent to that granted by the federal government.

In recent years, substantial efforts have been made by various stakeholders to convince foreign producers to shoot their films in Québec.

To support these efforts and stimulate job creation, on February 12, 1998, the Minister of State for the Economy and Finance, Bernard Landry, issued a press release announcing the government's commitment to adopt a tax measure restoring healthy competition between Québec and other Canadian jurisdictions, in particular Ontario. At the same time, Mr. Landry also announced that the details of this measure would be released in his next Budget Speech.

Accordingly, as announced, and to ensure that Québec remains a choice location for shooting foreign films, a refundable tax credit for film or television production services of 11% will apply regarding Québec labour expenditures

3 Release 97-096 issued by the Department of Finance of Canada.

4 Information bulletin issued by the Ministry of Finance of Ontario, dated November 18, 1997.



incurred after February 12, 1998 as part of the shooting of a foreign production. This measure may also apply in regard to a production that does not satisfy the Québec content criteria giving rise to the tax credit for film or television production. In general, the application details of this new tax credit will be similar to those of the federal tax credit for film or video production services, subject to the specific features described below.

### **Eligible corporations**

For the purposes of this measure, an “eligible corporation”, regarding an eligible production, will mean a corporation with an establishment in Québec whose activities consist primarily in operating a film or television production business or a film or television production services business and which:

- either owns the copyright for the eligible production throughout the period during which the production is carried out in Québec;
- or has concluded, directly with the owner of the copyright for the eligible production, a contract to supply production services in relation to such production, in the case where the owner of the copyright is not an eligible corporation regarding such production.

However, a corporation will be denied the tax credit for production services regarding an eligible production of which it, or a person with whom it is not at arm’s length, owns the copyright, when such corporation holds a broadcast licence issued by the Canadian Radio-Television and Telecommunications Commission (CRTC) or a corporation which is not at arm’s length with such a corporation.

A corporation will also be denied the tax credit for production services if it is tax-exempt or if it is controlled by one or more tax-exempt corporations.

### **Eligible productions**

Productions which currently entitle the taxpayer to the tax credit for film or television production must satisfy Québec content criteria. Given the objective of the new tax credit for film or television production services, these criteria will not apply in determining the eligibility of a production for this tax credit.

However, the categories of productions excluded from the application of the tax credit for Québec film or television production will also be excluded for the purposes of the tax credit for film or television production services.

### **Eligible labour expenditures**

For the purposes of this new tax credit, “eligible labour expenditures”, for a taxation year, in relation to an eligible production will consist of all the following amounts, provided they are reasonable in the circumstances:

- wages or salaries directly attributable to the making of the eligible production, incurred by the corporation during the year, after February 12, 1998, which relate to services rendered in Québec in relation to production stages ranging from the final script stage to the end of the post-production stage, and which the corporation paid to its eligible employees in the year or the 60 days following the end of the year;
- the portion of remuneration, other than wages or salary, incurred by the corporation during the year, which is directly attributable to the making of the eligible production, which relates to services rendered to the eligible corporation in Québec after February 12, 1998 and during the year in relation to the production stages mentioned in the preceding sub-paragraph, and which it paid in the year or the 60 days following the end of the year:
  - either to an eligible individual, provided that this portion of remuneration is reasonably attributable to the supply of services personally provided in Québec by the latter, or to the wages of the eligible employees of the individual who supplied the services in Québec as part of the making of the eligible production;
  - or to a corporation which has an establishment in Québec, which is not a corporation covered by the following sub-paragraph, provided that this portion of the remuneration is reasonably attributable to the wages of the eligible employees of such corporation who supplied the services in Québec as part of the making of the eligible production;
  - or to a corporation which has an establishment in Québec all of whose issued capital stock, except the qualification shares, belong to an eligible individual and whose activities consist mainly in supplying the services of this individual, provided that this portion of the remuneration is reasonably attributable to the supply of services rendered in Québec as part of the making of the eligible production;
  - or to a partnership which carries on a business in Québec and has an establishment there, provided that this portion of the remuneration is reasonably attributable either to the supply of services provided in Québec as part of the making of the eligible production by an eligible individual who is a member of the partnership, or to the wages of the eligible employees of the partnership who supplied services in Québec as part of the making of the eligible production.

For this purpose, an “eligible employee” and an “eligible individual” will mean a taxpayer who is a resident of Québec at the end of the calendar year preceding the year during which the bulk of the photography or recording began.

If applicable, the eligible labour expenditures of an eligible corporation will be reduced by the amount of any government or non-government assistance the eligible corporation has received or is entitled to receive in their regard. However, this rule does not apply to the federal tax credit for film or video production services.

Lastly, the amount of the tax credit may be applied against the tax instalments, if any, the eligible corporation must make.

### **Accumulation of tax credits**

To prevent the accumulation of tax credits, a production will not entitle a taxpayer to the tax credit for film or television production services if an amount of tax credit for film or television production has been claimed in its regard.

Similarly, a change will be made to the rules of the tax credit for dubbing, so that a production cannot entitle a taxpayer to this tax credit if an amount of tax credit for film or television production services has been claimed in regard to dubbing services.

### **SODEC's role**

To be entitled to the tax credit for film or television production services regarding a taxation year and a given production, an eligible corporation will have to include with its tax return for such year a certificate from the Société de développement des entreprises culturelles (SODEC) stating that the given production is an eligible production.

### **Application date**

This measure will apply regarding taxation years of an eligible corporation ending after February 12, 1998.

## ***2.6.2 Improved tax assistance for computer animation and special effects***

Under existing rules, labour expenditures incurred for computer animation and special effects for a Québec film or television production can entitle a taxpayer to a refundable tax credit of 45% in the case of certain French-language feature films and certain documentaries, and 33 1/3% for all other eligible productions.

Furthermore, an eligible corporation which carries out the computer animation and special effects for a production covered by the new tax credit for film or television production services can, under certain conditions, claim a tax credit equal to 11% of labour expenditures relating to such activities.

To provide even more support for the technological development of the industry, additional assistance will be granted regarding labour expenditures relating to the making of computer animation and special effects for use in an eligible film or television production.

In general, this measure will result in an increase in the rate of the tax credits applicable regarding certain expenditures for the purposes of calculating the current tax credit for Québec film or television production and the new tax credit for production services.

The labour expenditures covered by this improvement will be wages paid to the employees of a corporation with an establishment in Québec which are directly attributable to eligible activities relating to computer animation or special effects which these employees carry out as part of an eligible production. The wages thus eligible will include both the wages paid to employees of the corporation which produces the film and those paid to the employees of a technical services firm which acts as sub-contractor for part of the production work.

The parameters of the tax assistance relating to wages paid to produce computer animation and special effects are given in the following table.

TABLE 1.4

#### TAX ASSISTANCE FOR COMPUTER ANIMATION AND SPECIAL EFFECTS

Type of production	Nominal rate (as a % of labour expenditures)		Total	Maximum labour expenditures	Effective rate
	Base rate	Supplementary rate		(as a % of production cost <sup>1</sup> )	
Certified Québec film					
– certain French-language feature films and certain documentaries	45	—	45	45	20¼
– other productions	33 ⅓	11 ⅔	45	45	20¼
Production entitling taxpayer to the tax credit for production services	11	20	31	N/A	15½
Small-budget production <sup>2</sup>	—	20	20	N/A	10

1 In this illustration, for purposes of determining the maximum assistance as a percentage of production costs, it is assumed that labour expenditures which entitle the taxpayer to the base rate also entitle the taxpayer to the supplementary tax credit rate for producing computer animation and special effects. In addition, in the case of a production entitling the taxpayer to the tax credit for production services, it is assumed that the labour expenditures relating to the production of computer animation and special effects amount to 50% of the cost of the production.

2 Applies to productions which do not satisfy the minimum cost rules to qualify for the base rate of the tax credit for production services (\$1 million for a single production; \$100 000 for a production of under 30 minutes that is part of a series; \$200 000 for a production of 30 minutes or more that is part of a series), provided the production is not in an excluded production category.

In the case where overall labour expenditures eligible for the tax credit for Québec film or television production exceed the maximum of 45% of the cost of the production, a special rule will stipulate that this maximum is to be attributed on a priority basis to the labour expenditures relating to computer animation and special effects, which entitle the taxpayer to a higher tax credit rate.

To be entitled to additional assistance for computer animation or special effects, the corporation qualifying, in regard to a production, for the tax credit for film or television production (45% of labour expenditures), for the tax credit for eligible production services (31% of labour expenditures or 20% of labour expenditures, as the case may be) will have to include with the form it must file to claim either of these tax credits a certification from SODEC establishing the amount of wages paid to the employees who carried out eligible activities relating to computer animation and special effects as part of the production, taking account of the time they spent on them.

For illustration, activities which may entitle the taxpayer to the supplementary rates include motion capture, correction of animation curves, rendering, image retouching, graphics, filming, computerized and automated animation benches, use of motion control.

This measure will apply regarding wages paid after the day of the Budget Speech.

### **2.6.3 Streamlining of certification criteria for certain films**

Currently, an eligible corporation which incurs labour expenditures to make a Québec film or television production can claim a refundable tax credit in this regard, provided such production is recognized as a Québec film by SODEC.

SODEC bases its decision to issue a certificate on various criteria, including certain Québec content criteria, stated in the *Reglément sur la reconnaissance d'un film comme film québécois*. In the case of a production of 75 minutes or longer, a minimum of 75% of the production expenses and a minimum of 75% the post-production expenses must be paid for services supplied in Québec, excluding, notably, expenses relating to the financing of the film. In the case of a co-production or a production shorter than 75 minutes, these criteria stipulate that a minimum of 75% of the overall production expenses must be paid for services supplied in Québec, excluding the expenses relating to the financing of the film.

In the case of 15/70 format films, it is difficult to satisfy these recognition criteria because the technology necessary to carry out part of the production and post-production work is not available in Québec.

To encourage the production of films using this format by Québec firms, these criteria will be streamlined. Accordingly, for the purposes of determining whether a 15/70 format film satisfies the 75% criterion, expenses relating to production or post-production services not available in Québec will not be taken into account.

This change will apply regarding productions for which the bulk of the photography or recording begins after the day of the Budget Speech.

#### ***2.6.4 Extension of transition rules for certain variety shows and magazines***

In the March 25, 1997 Budget Speech, it was announced that certain variety shows and certain television magazine programs would be excluded from the application of the refundable tax credit for Québec film and television production. However, transition rules apply to this measure with the result that such shows broadcast over the last year continued to be largely eligible for the tax credit. While waiting for the conclusions of the task force (see subsection 2.6.5 below) which will study, among other matters, the advisability of making this type of production eligible, it is appropriate to extend the application of the transition rules for an additional year.

Accordingly, variety or television magazine shows which would otherwise be excluded from the application of the tax credit for film or television production, will continue to entitle the taxpayer to the tax credit under the following conditions:

- the bulk of photography or recording work of the show or magazine are completed before June 1, 1999;
- this show or magazine will be broadcast before July 1, 1999.

#### ***2.6.5 Formation of a task force***

In recent months, the ministère des Finances has received proposals to change the tax credit for film or television production which raised fundamental issues as to the purpose of this measure. These issues must be examined very seriously to determine what action to take. Accordingly, a task force consisting of representatives of the ministère des Finances, the ministère de la Culture et des Communications and SODEC will analyze these proposals and indicate possible solutions to the government concerning the following issues:

- the eligibility of productions by broadcasters and their subsidiaries for the tax credits;
- the eligibility of variety shows and magazines for the tax credits for Québec film and television productions.

## 2.7 Simplification of the refundable tax credit for the production of multimedia titles

The refundable tax credit for the production of multimedia titles was implemented in the May 9, 1996 Budget Speech. It was then modified substantially as described in Information Bulletin 97-3, released on May 22, 1997.

The amount of tax assistance currently granted a producer of a multimedia title is based on the parameters described in the following table:

TABLE 1.5

### PARAMETERS OF THE TAX CREDIT FOR THE PRODUCTION OF MULTIMEDIA TITLES

	Tax assistance (as a % of eligible labour expenditures)		Maximum tax assistance
	Basic tax credit	Plus: premium for French	
Category 1	45	20	35% of production expenses
Category 2	45	N/A	25% of production expenses

Multimedia titles are therefore currently grouped into two categories. The first includes multimedia titles designed for broad commercialization and available in a French version. The second covers all other multimedia titles.

For a title to be eligible, it must be certified by SODEC. Only the producer of a title can obtain certificate and, accordingly, receive the tax assistance. A corporation with an establishment in Québec and acting as sub-contractor for a producer who is not subject to Québec income tax, cannot claim the tax assistance since it is not the producer of the title.

The expression "eligible labour expenditures" of a producer, for a taxation year, relating to an eligible title, means the total of the following items:

- the wages incurred during the year with persons who are employed by the producer in an establishment of the latter in Québec and who work directly on the production of the eligible title, which can be reasonably considered to relate to such title, given the time the employee spends thereon;

- in the case where the work is done by a sub-contractor, the following amounts:
  - if the sub-contractor is a person not at arm's length with the producer of the eligible title, the portion of the consideration paid under the contract, which can reasonably be attributed to wages paid to the employees of an establishment of the sub-contractor in Québec, regarding the production of the eligible title;
  - if the sub-contractor and the producer are not at arm's length, half of the consideration paid under the contract, which can be reasonably attributed to the production of the eligible title during the year by the employees of such sub-contractor of an establishment in Québec.

In light of the experienced gained to date, the tax credit for the production of multimedia titles could be better adapted to certain client groups and could be simplified.

In this context, the tax credit for the production of multimedia titles will henceforth include two sections:

- a new section, created for firms focused exclusively or almost so on the production of multimedia titles and, as the case may be, related R&D;
- the current section, which will be maintained and improved for other taxpayers.

### **New section introduced**

The particular feature of this new section is that SODEC will be able to issue a certificate regarding a corporation whose activities essentially consist in producing eligible multimedia titles. Accordingly, separate certificate for each title will no longer be required in this context. Also, a detailed compilation of the expenditures relating to each title will no longer be necessary.

#### **• Eligible taxpayers**

To be eligible for this new section, a corporation must obtain a certificate from SODEC to the effect that all or almost all its activities consist in producing, in a given establishment in Québec, multimedia titles for itself or on behalf of other persons and, as the case may be, carrying out the related R&D.



The certificate will also include details on the location of the establishment in question and the nature of the titles produced. In the latter case, the corporation will have to prove that at least 75% of the titles it produced in the taxation year concerned, or of its gross income for such year, consist of, or stem from, multimedia titles intended for broad commercialization and, if applicable, available in a French version.

The certificate will be issued regarding a taxation year and will have to be renewed each year. An interim certificate will have to be obtained at the beginning of the year and must be replaced by a final certificate at the end of the year, which must be included with the corporation's tax return for the year. In carrying out this responsibility, SODEC will also have the power to revoke certificate.

- **Labour expenditures and eligible employees**

Eligible labour expenditures under this new section will consist of the following items:

- wages incurred with persons who are eligible employees;
- expenditures relating to sub-contracting, according to the same terms and conditions as currently applicable.

For this purpose, an “eligible employee” will mean a person who both:

- undertakes, supervises or directly supports, in an establishment covered by a certificate, specialized work relating to the production of multimedia titles otherwise eligible;
- carries out all or almost all of his duties on the premises of an establishment covered by the certificate.

However, the amount of eligible labour expenditures will not include the amount regarding which another refundable tax credit has otherwise been granted. In addition, this amount must be reduced by any government assistance, any non-government assistance and any profit or benefit, according to rules similar to those applicable for the purposes of the refundable tax credit on R&D wages.

Furthermore, provisions similar to those currently applicable for contributions regarding an R&D project will be stipulated and will apply to situations in which a sub-contract is concluded.

## Simplification of the existing tax credit

The following measures will, among other things, help simplify the application of the existing tax credit for all corporations who can claim it, including those covered by the new section:

- the current maximum, based on eligible production expenses, will be withdrawn;
- the rates of the tax credit will be as shown in the following table;

TABLE 1.6

### NEW PARAMETERS REGARDING THE TAX CREDIT FOR THE PRODUCTION OF MULTIMEDIA TITLES

Amount of tax assistance (based on eligible labour expenditures)	Basic tax credit	Plus: premium for French (if applicable)
Category 1	40% <sup>1</sup>	10% <sup>2</sup>
Category 2	35% <sup>3</sup>	N/A

- 1 Rate applicable to eligible labour expenditures of a corporation with a certificate issued under the new section, specifying that at least 75% of its multimedia titles produced during the year in question, or of its gross income for such year, consists or is derived from multimedia titles of category 1.
- 2 Additional rate applicable to eligible labour expenditures of a corporation with a certificate issued under the new section specifying that at least 75% of its multimedia titles produced during the year in question, or of its gross income for such year, consists or is derived from multimedia titles of category 1 which are available in French.
- 3 Rate generally applicable to eligible labour expenditures of a corporation with a certificate issued under the new section.

- category 1 will include multimedia titles designed for broad commercialization;
- the notion of “producer” will be extended to corporations which make a portion of a title for the benefit of a producer who is not subject to Québec income tax, and the certification procedure will be changed to allow certification of a portion of a title;
- eligible labour expenditures must be reduced by amounts paid to a sub-contractor with a certificate issued by SODEC under the terms and conditions of the new section;
- eligible labour expenditures must be reduced by any profit of benefit, according to rules similar to those applicable for the purposes of the refundable tax credit on R&D wages;

- provisions similar to those currently applicable for contributions regarding an R&D project will be stipulated and will apply to situations in which a sub-contract is concluded;
- the tax credit can henceforth be applied against the tax instalments the corporation must pay in relation to income tax and, as the case may be, the tax on capital, according to terms and conditions similar to those stipulated for the purposes of the tax credit on R&D wages, but regardless of the corporation's size, as the case may be.

### **Application date**

These changes will apply, for the purposes of the general section, to titles for which the major production work begins after the day of the Budget Speech. However, a producer for whom the major production work regarding a title began after May 9, 1996 but no later than the day of the Budget Speech will be allowed to choose, using a prescribed form, to elect, in regard to this title, the tax system applicable to titles for which the major production work begins after that day.

Moreover, rules will be put in place to ensure a smooth transition between the general application rules of the tax credit and those applicable to the new section, notably to prevent any accumulation of tax assistance. For this purpose, any expenditure incurred by a corporation after the effective date of a certificate issued in its regard under the new section will not be allowed as an eligible expenditure for the purposes of calculating the tax credit regarding any multimedia title under production and covered by a certificate pursuant to the rules applicable to the general section.

## **2.8 Introduction of a refundable tax credit for job creation in the clothing and footwear industry**

In recent years, the clothing and footwear industry has undergone many structural changes, notably because of increased competition with producers in countries where wages are lower than in Québec.

In response to these changes, some firms have shifted their production to higher value-added products. In the meantime, the underground economy is still a factor in the clothing and footwear industry.

To foster the competitiveness of Québec firms and encourage them not to turn to clandestine work, a temporary refundable tax credit will be introduced, for a period of four years, regarding the increase in payroll attributable to production employees of an employer operating in the clothing and footwear industry.

## Eligible taxpayers

In general, any taxpayer who, during a calendar year, carries on a business in Québec and has an establishment here, may, under certain conditions, claim the tax credit for such calendar year. Accordingly, the tax assistance will be available for corporations, individuals and taxpayers who are members of a partnership.

More specifically, the gross income of a taxpayer or of a partnership of which he is a member, as the case may be, for the taxation year in which the calendar year ends must stem principally from the operation in Québec of a clothing or footwear making or manufacturing business.

However, the following taxpayers will be denied the tax credit for a calendar year:

- a corporation which derives more than 10% of its gross income for the taxation year in which the calendar year ends from a source other than the operation of an eligible business;
- a person exempt from tax for the taxation year in which the calendar year ends;
- a Crown corporation or a wholly-controlled subsidiary of such a corporation;
- a trust one of the beneficiaries of whose capital or income is a person described in any of the preceding sub-paragraphs.

In the case of an eligible taxpayer who is a member of a partnership, eligibility for the tax credit will be determined with reference to the partnership, but the tax credit will be granted to each member of the partnership for this taxation year in which ends the partnership's fiscal year in which the calendar year ends, on the basis of his respective share of the income or loss of such partnership for such fiscal year. Assuming the income or loss of the partnership for such fiscal year is nil, the income of the partnership for such fiscal year will be deemed to be equal to \$1 000 000 for the purposes of determining the share of each member of the partnership.

## Clothing or footwear making or manufacturing business

For the purposes of this tax credit, a "clothing or footwear making or manufacturing business" will mean a business whose activities consist in making or manufacturing, in whole or in part, clothing or footwear with the exception of jewelry and other accessories.

## Details of the determination of the tax credit

The tax credit an eligible taxpayer can claim for a calendar year will be determined by multiplying the tax credit rate applicable to such taxpayer by the amount of the increase in payroll attributable to its eligible employees, or by the amount of his share of the increase in payroll attributable to the eligible employees of the partnership of which he is a member, as the case may be, for such year.

The existence of an increase in payroll attributable to eligible employees for a calendar year will be determined by comparing the total amount of wages paid to eligible employees for such year with the total amount of wages paid to eligible employees for calendar year 1997.

For this purpose, the wages to be considered will be the employment income of an eligible employee, excluding attendance fees of a director, a bonus, a performance premium, overtime pay, a commission and taxable benefits that must be included in calculating the employee's employment income.

In addition, in the case of an eligible taxpayer or partnership of which he is a member, as the case may be, which has not carried on a business in Québec throughout the entire calendar year 1997, the total amount of wages paid to eligible employees for such year will be determined according to the following formula:

$$\begin{array}{rcccl} & & & & 365 \text{ days} \\ & & & & \hline \text{Wages actually} & & & & \\ \text{paid to eligible} & & & & \\ \text{employees in 1997} & \times & \text{Number of days in 1997} & & \\ & & \text{that a business was} & & \\ & & \text{carried on in Québec} & & \end{array}$$

In the case of an eligible taxpayer or partnership of which he is a member, as the case may be, which begins to carry on a business in Québec during a calendar year subsequent to 1997, the total amount of wages paid to eligible employees for such year will be determined according to a formula similar to the one described in the preceding paragraph. In addition, the existence of an increase in payroll attributable to eligible employees for a calendar year subsequent to 1997 will be determined by comparing the total amount of wages paid to eligible employees for such subsequent year with the total amount of wages paid to eligible employees for the calendar year during which the business began to operate.

## Rate of the tax credit

The rate of this tax credit for a calendar year will be equal to 20% of the amount of the increase in payroll attributable to eligible employees for such year.

## **Eligible employee**

An “eligible employee” of an eligible taxpayer or partnership, as the case may be, will mean an individual who is an employee of an establishment in Québec of such taxpayer or such partnership and who is neither, if he is an eligible employee of a partnership, an employee who is not at arm’s length with a member of such partnership, nor, if he is an eligible employee of a corporation, a specified shareholder of such corporation.

In addition, the duties of such individual with the eligible taxpayer or partnership of which he is an employee, as the case may be, must be devoted, in a proportion of at least 90%, directly to the making or manufacturing of clothing or footwear, other than the articles identified above. Accordingly, subject to the other conditions that must be satisfied, an employee who devotes at least 90% of his time undertaking, supervising or directly supporting the making or manufacturing of such clothing or footwear will be an eligible employee for the purposes of the tax credit.

More specifically, the duties considered to be devoted directly to the making or manufacturing of clothing or footwear will include the duties of creaser, sorter, sewer, cutter, assembler, presser, preparer, stacker, shelve, examiner, tacker, finisher, operator, separator, turner and handler.

## **Reduction in the amount of wages paid to eligible employees**

The total amount of wages paid for a calendar year to eligible employees by an eligible taxpayer or partnership of which he is a member, as the case may be, must be reduced by the amount of any government assistance, any non-government assistance, any contractual payment and any benefit or advantage, according to rules similar to those applicable for the purposes of the tax credit on R&D wages.

In addition, this amount must also be reduced by the amount of wages for which another refundable tax credit is granted. However, the tax credit for job creation will not be included for this purpose, and an eligible taxpayer will accordingly be able to claim both that tax credit and the current tax credit.

More specifically, this amount will also have to be reduced by the amount of wages paid to an eligible employee for a week regarding which a tax credit for on-the-job training has been or will be granted for such employee.

## **Other application details**

If a wage expenditure for which a tax credit is granted is refunded to the eligible taxpayer or the partnership of which he is a member, the tax credit thus granted will be recovered according to rules similar to those applicable for the purposes of the tax credit for on-the-job training.

Moreover, this tax credit cannot be applied against the tax instalments of an eligible taxpayer for income tax or the tax on capital, if any.

In order to claim this tax credit for a calendar year, an eligible taxpayer must include a form prescribed by the Minister of Revenue with his tax return for his taxation year in which such calendar year ends.

Lastly, the wages regarding which a tax credit is claimed by an eligible taxpayer must have been paid at the time the tax credit is obtained.

### **Totality of the tax credit**

To protect the totality of the tax credit, special rules will be stipulated concerning associated taxpayers, mergers, winding up and the acquisition of a taxpayer's business by another taxpayer. In general, these rules will be similar to those applicable for the purposes of the tax credit for job creation.

In brief, the existence of an increase in payroll attributable to eligible employees, for a calendar year, will be determined on a consolidated basis, considering the attributes of each of the taxpayers associated among themselves at the end of such calendar year.

In addition, the taxpayers associated among themselves will have to share the amount of the increase in payroll attributable to the eligible employees, by submitting an agreement to that effect to the MRQ. However, the amount thus allocated to one taxpayer may not exceed the amount of the increase in payroll attributable to his eligible employees, or the amount of his share of the increase in payroll attributable to the eligible employees of the partnership of which he is a member, as the case may be.

Moreover, the tax credit an eligible taxpayer may be entitled to will not be increased or reduced, as the case may be, simply because of a merger, a winding up or the acquisition of the business of a taxpayer by another taxpayer.

### **Application date**

This measure will apply regarding calendar years 1998 to 2001.

## **2.9 Elimination of the tax credit for job creation**

Under existing legislation, a Québec employer who creates jobs during a calendar year can claim a reduction in payroll taxes regarding the jobs thus created. This reduction is granted as a refundable tax credit.

Briefly, this tax credit is equal to \$1 200 for each new full-time job (26 hours of work during 40 weeks) created during a calendar year by an employer whose contributions to the Health Services Fund increased during such year. It can reach a maximum of \$36 000 for a calendar year if 30 full-time jobs are created during such year.

The tax credit for job creation was not as successful as hoped for among employers, notably large firms, because of the costs inherent in administering it.

The tax credit for job creation will accordingly be eliminated. This measure will apply regarding calendar year 1999 and subsequent years.

## **2.10 Mining taxation**

Under the *Mining Duties Act* (MDA), a Québec mine operator must pay mining duties corresponding to 12% of its annual profits.

For this purpose, the annual profits of a mine operator are determined by subtracting from the market value of mineral substances sold or used by the operator, the total operating expenditures incurred to realize this value as well as the amounts relating to certain allowances specifically stipulated in the MDA.

### ***2.10.1 Increased support for exploration in Québec's Mid-North and Far North***

The MDA allows special tax treatment for mining exploration, including a refundable duties credit for losses which notably depends on on-going exploration expenses, as well as an additional exploration allowance equal to 50% of certain exploration expenses.

To further encourage northern mining exploration projects, changes will be made to the MDA to raise the additional exploration allowance by an amount equal to 25% of exploration expenses, otherwise eligible for the additional exploration allowance, incurred in Québec's Mid-North and Far North.

In addition, operators with no mining duties payable can elect to use this increase to raise the refundable duties credit for losses to which they are entitled. More specifically, changes will be made to the MDA so that this increase can be added both to the annual loss and to eligible exploration expenses. In the other cases, the increase will be added to the cumulative additional exploration allowance account.



Moreover, the *Taxation Act* allows an operator to deduct, in calculating its income for a taxation year, an amount corresponding to the exploration expenses incurred during the year. If these exploration expenses are financed with flow-through shares and the operator waives them in favour of investors, the latter can, for the purposes of this Act, claim such a deduction. In addition, when the investors in question are individuals, they can claim deductions equal to 125% or 175%, as the case may be, of exploration expenses incurred in Québec.

The *Taxation Act* will be amended to increase the deduction for exploration expenses by an amount equal to 25% of such expenses incurred in the Mid-North and Far North. In addition, when such exploration expenses are financed using flow-through shares and the operator waives them in favour of investors, the latter will, solely in the case of corporations, be able to claim such an increase for the purposes of the *Taxation Act*.

These improvements will apply regarding exploration expenses incurred after the day of the Budget Speech over the territory covered by the Mid-North mining exploration program of the ministère des Ressources naturelles (MRN), i.e. the territory located north of the towns of Matagami and Chibougamau, between latitude 50°30' and 54°00' and bordered to the east by the Grenville face, as well as a portion of the territory of the Basse Côte-Nord located between Baie-Johan-Beetz and the Petit Mécatina river. They will also apply to exploration expenses incurred in the Far North, namely the territory north of the 54th parallel.

### **2.10.2 Additional allowance for treatment of mine tailings**

For the purposes of calculating the annual profits of an operator, a mineral substance includes mine tailings taken from a mine.

Moreover, when an operator makes cast iron or does refining, it is generally entitled to claim a treatment allowance equal to 15% of the cost of the eligible assets. Otherwise, this allowance is equal to 8% of the cost of eligible assets. However, the allowance cannot exceed 65% of the profit calculated before such allowance.

To recognize the importance of investments made in Québec in the mine tailings treatment sector, the MDA will be amended to allow an additional allowance for mine tailings treatment, which will apply during the first ten years following the putting into use of the assets used for the treatment of mine tailings.

This additional allowance for mine tailings treatment will be equal to 15% of the capital cost of new assets put into use in an establishment in Québec for the purposes of mine tailings treatment, after the day of the Budget Speech.

However, the total of the treatment allowance and this additional mine tailings treatment allowance cannot exceed 65% of profits, calculated before such allowances.

### ***2.10.3 Restriction on the possibility of waiving exploration expenses***

The *Taxation Act* allows investors a deduction corresponding to exploration expenses incurred by a corporation when they are financed by means of flow-through shares and the corporation waives them in their favour for the purposes of this Act. When the investors in question are individuals, they can claim deductions equal to 125% or 175%, as the case may be, of exploration expenses incurred in Québec.

The fact that the operator waives its exploration expenses for the purposes of the *Taxation Act* also prevents it from considering them for the purposes of the MDA, but does not prevent it from doing so when the waiver is given in favour of a legal person.

Accordingly, the MDA will be amended to include an additional condition in the case where the operator waives its exploration expenses for the purposes of the *Taxation Act* in favour of a legal person. In such situations, the MRN may require the operator to obtain an undertaking from such legal person not to waive these exploration expenses, for the purposes of the *Taxation Act*, in favour of another investor who, in turn, purchases flow-through shares of such legal person.

In the case where the operator does not provide such an undertaking, or if the legal person fails to honour its undertaking, the operator may not consider the exploration expenses in question for the purposes of the MDA.

This change will apply regarding exploration expenses waived after the day of the Budget Speech.

## **2.11 Measures concerning the tax on capital**

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

The applicable rate and the method of calculating paid-up capital differ depending on whether a financial institution or a corporation which is not a financial institution is involved.

In general, the paid-up capital of a corporation which is not a financial institution is obtained by adding most of the amounts shown in the “shareholders’ equity” and “long-term liabilities” sections of the balance sheet.

To avoid double taxation, a reduction of paid-up capital is granted regarding investments in other corporations. Lastly, a tax rate of 0.64% is applied to the paid-up capital thus obtained.

Furthermore, the tax on capital applicable to financial institutions is calculated on a different basis than for other corporations. This distinction is needed essentially because it would not be appropriate to tax certain liabilities of financial institutions, mainly deposits.

The concept of paid-up capital applicable to banks includes capital stock, certain reserves and provisions, surpluses, undistributed earnings, long-term liabilities and half the accounting value of assets which are tangible property.

However, in calculating its paid-up capital, a bank can deduct, as the case may be, the amount of its deficit, the amount of its deferred tax debit, as well as the value of certain investments in a financial institution related to it. A tax rate of 1.28% is applied to the paid-up capital thus calculated.

### ***2.11.1 Calculation of the paid-up capital of certain financial institutions***

The banking industry is currently changing from top to bottom. The re-engineering of the industry fosters the consolidation of administrative support activities, which has major consequences on the location of bank activities and job creation.

Since taxation is a key factor in deciding where to locate banking activities, the tax system will be adapted to enable Québec to benefit as much as possible from the on-going consolidation in the banking industry.

Henceforth, a bank will be able to deduct, in calculating its paid-up capital for a taxation year, an amount equal to \$500 million if its world assets, for the preceding taxation year, are less than \$100 billion. For this purpose, the assets of any corporation with which the bank is associated, on a world basis, will be included.

This measure will apply for taxation years ending after the day of the Budget Speech. However, for a taxation year including that day, the amount of the deduction will be calculated in proportion to the number of days of such taxation year following the day of the Budget Speech.

### ***2.11.2 Securities eligible for the reduction for investments***

Since the Budget Speech of March 25, 1997, investments in corporations exempt from the payment of the tax on capital have been ineligible for the purposes of the reduction for investments. This exclusion was introduced because double taxation of investments held in such corporations is not possible.

However, analyses have shown that there is the potential for a significant substitution effect in the make-up of investment portfolios of corporations subject to the tax on capital, at the expense of issuers of securities which are exempt corporations.

This exclusion is accordingly eliminated regarding taxation years beginning after March 25, 1997.

### ***2.11.3 Standardization of rules relating to short-term holding of securities***

The tax legislation stipulates that the paid-up capital of a corporation is reduced in proportion to the amount of certain of its investments divided by the amount of its assets. These investments generally consist of stock and bonds, as well as loans and advances to other corporations.

In the past, rules were put in place to prevent a corporation from converting, at the close of the year, its liquid assets into certain securities eligible for the reduction in paid-up capital, and reselling the securities shortly thereafter.

Investments which are commercial paper, bankers' acceptances or securities of Crown corporations subject to the tax on capital accordingly cannot reduce the paid-up capital of a corporation unless it holds them for a continuous period of at least 120 days ending immediately before the end of its taxation year.

Without restricting the scope of the anti-avoidance rules currently applicable, a new general application rule will be put in place to prevent a corporation from converting, at the end of the year, its liquid assets into investment securities otherwise eligible for the reduction for investments solely to reduce its tax on capital payable.

Accordingly, in calculating its reduction for investments for a taxation year, a corporation may consider such investments only if it has held them for a continuous period of at least 120 days including the date of the end of its taxation year.

This change will apply regarding taxation years beginning after the day of the Budget Speech.

### **2.11.4 Technical change to the relief from the tax on capital regarding new investments in certain sectors**

The March 25, 1997 Budget Speech introduced relief from the tax on capital regarding new investments in certain sectors.

This relief is granted in the form of a deduction in calculating the paid-up capital of a corporation for which the rate of the tax on capital payable for a taxation year is 0.64%, based on the eligible acquisition expenses it has incurred regarding an eligible asset.

A corporation can claim this deduction regarding eligible acquisition expenses it has incurred, in a taxation year, for the taxation year during which these expenses were incurred and for the subsequent taxation year.

Briefly, the eligible assets for the purposes of the relief from the tax on capital are manufacturing or processing equipment, equipment for processing foreign ore, computer equipment, buildings used in the course of manufacturing and processing activities, as well as equipment and buildings used in the course of eligible activities related to the tourism sector.

However, these assets must be acquired by a corporation, or by a partnership, as the case may be, before January 1, 1999, subject to the transition periods stipulated by the tax legislation.

The text mentioning the implementation of this relief from the tax on capital only referred to buildings used in the course of manufacturing or processing activities.

Accordingly, while the processing of ore extracted from a mineral resource located outside Canada more closely resembles manufacturing or processing activities than mining activities, the buildings used in the course of such activities do not constitute eligible assets for the purposes of relief from the tax on capital because such activities do not constitute manufacturing or processing activities within the meaning of the tax regulations.

The tax legislation will accordingly be amended so that buildings used in the course of processing foreign ore will be eligible for relief from the tax on capital in the same way as equipment for the processing of foreign ore,<sup>5</sup> as if these buildings had been mentioned in the March 25, 1997 Budget Speech.

This change will apply to buildings used or intended for use in the course of processing foreign ore and acquired by a corporation or a partnership, as the case may be:

<sup>5</sup> This equipment already constitutes an eligible asset for the purposes of the relief from the tax on capital because the text mentioning the implementation of this relief referred to equipment entitling the taxpayer to a 100% accelerated depreciation deduction.

- after March 25, 1997 but before January 1, 1999, unless:
  - they are acquired in accordance with a written undertaking contracted no later than March 25, 1997;
  - the construction of these assets by the corporation or partnership, as the case may be, or on behalf of one of them began on March 25, 1997;
- after December 31, 1998 but before January 1, 2000:
  - if they are acquired in accordance with a written undertaking contracted before January 1, 1999;
  - if construction of these assets by the corporation or the partnership, as the case may be, or on behalf of one of them began before January 1, 1999.

### ***2.11.5 Technical change to the calculation of the paid-up capital of certain corporations involved in mining***

For the purposes of the tax on capital, the tax legislation allows a corporation involved in mining to deduct in calculating its paid-up capital for a taxation year an amount equal to 33 1/3% of the portion of its paid-up capital otherwise determined, represented by the proportion of its gross income for the taxation year from a mineral resource it owns or develops to its total gross income for such year.

If the corporation develops a mineral resource through a partnership, the application of the existing tax legislation can result in reducing the amount of the deduction of 33 1/3% of paid-up capital, and thus unduly increasing the tax burden of the corporation that is a member of such partnership.

Changes will accordingly specify that, for the purposes of the calculation of this deduction, the gross income of the partnership for its fiscal year ending in the taxation year of the corporation will be deemed to be that of the members for such taxation year and not that of the partnership, according to their respective share of the partnership's income or loss, and such gross income, when derived from a mineral resource, will retain its nature.

For this purpose, the determination of a corporation's share in the income or loss of a partnership will be made, in the case where the partnership's income and loss are nil, for a fiscal year, by assuming that the partnership's income for such fiscal year is equal to \$1 000 000.

To avoid an accumulation of tax benefits, the paid-up capital of a corporation relating to a stake in a partnership must be calculated without taking account of this deduction of 33 1/3%.

These changes will apply for taxation years of a corporation ending after the day of the Budget Speech.

### ***2.11.6 Updated list of Québec government corporations subject to the tax on capital***

Some corporations are exempt from the tax on capital, in particular corporations exempt for income tax purposes, such as municipalities, registered charities and corporations at least 90% of whose shares, capital or assets are held by the government of Canada or of a province or by a Canadian municipality.

This exception to the general rule does not apply for prescribed government corporations. These are commercial and industrial corporations which compete directly with the private sector. In addition, the government does not have to provide them with operating subsidies for them to carry out their activities.

In recent years, the list of government corporations that should be prescribed in this way has changed because of the termination of some activities and, in one other case, a change in corporate name.

Consequently, the tax regulations will be updated to specify the names of the government corporations subject to the tax on capital, namely:

- Hydro-Québec;
- Société des loteries du Québec;
- Société des alcools du Québec;
- Société de développement de la Baie James;
- Société générale de financement du Québec;
- Société québécoise d'exploration minière;
- Société québécoise d'initiatives agro-alimentaires;
- Société québécoise d'initiatives pétrolières;
- Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR);

- wholly-controlled subsidiaries of the above government corporations. For this purpose, a wholly-controlled subsidiary of a corporation which is itself such a subsidiary of another corporation will be deemed to be a wholly-controlled subsidiary of such other corporation

These changes will apply as of the day after the day of the Budget Speech.

## **2.12 Tax assistance for the capitalization of the Réseau d'investissement social du Québec**

The Réseau d'investissement social du Québec (Network), spawned at the Summit Conference on the Economy and Employment in the fall of 1996, was inaugurated last November. Its main objectives are to contribute to the capitalization of social businesses and provide the executives of these firms with a management structure that will enable them to improve their skills and the performance of their business.

The Network's goal is to collect \$23 million over five years from private subscriptions and contributions from the Québec government.

Under existing rules, taxpayers who carry on a business and who have made or will make a contribution to the Network can generally deduct, in calculating their income from such business, the amount of such contributions.

To assist the Network's capitalization, the contributions made since its constitution, during a taxation year of a taxpayer which is a corporation will entitle the taxpayer to an additional deduction, in calculating its income for the year, equal to 50% of the amount paid otherwise eligible as a deduction.

## **2.13 Adjustments to the accelerated depreciation deduction**

Currently, taxpayers who carry on a business in Québec can claim a depreciation deduction of 100% of the capital cost of certain assets used in Québec, without taking into account the half-year rule and the available-for-use rule which generally apply under Québec legislation.

In addition, taxpayers who carry on part of their business in Québec and part outside Québec can claim an additional deduction equal to 20% of the depreciation deduction claimed for such assets for a taxation year. The amount thus obtained, for a year, is then multiplied by the proportion, for such year, of business done outside Québec by the taxpayer to business done in Québec.



Lastly, taxpayers who acquire such assets before January 1, 1999 can generally claim a supplementary deduction equal to 25% of the accelerated depreciation deduction claimed for a taxation year, thus bringing the total deduction to 125%. If a taxpayer does part of its business outside Québec during a taxation year, the amount of the supplementary deduction is divided by its proportion of business done in Québec for such year, so that it benefits fully from such supplementary deduction.

### ***2.13.1 Additional 20% deduction granted to partnerships***

Under the existing legislation, only individuals and corporations which directly carry on a business can claim the additional deduction of 20% and the adjustment made to the supplementary deduction of 25% when part of the business is carried on in Québec and part outside Québec.

Taxpayers carrying on a business through a partnership cannot claim these benefits because a partnership does not have to establish a proportion concerning its business done in Québec and the additional deduction of 20% as well as the adjustment to the supplementary deduction of 25% depend, notably, on the proportion of business done in Québec by the taxpayer who deducted an amount as accelerated depreciation in calculating his income, namely the partnership.

The tax legislation will accordingly be changed to grant the same treatment to businesses carried on partly in Québec and partly outside Québec, whether they are carried on directly by an individual or by a corporation, or through a partnership. A partnership henceforth will be able to claim the additional deduction of 20% as well as the adjustment to the supplementary deduction of 25%.

For this purpose, the proportion of business done in Québec by a partnership, for a fiscal year, will be determined as though the partnership were a corporation.

These changes will apply regarding assets otherwise eligible for the accelerated depreciation deduction, acquired by a partnership after the day of the Budget Speech.

### ***2.13.2 Obligation to file an amended tax return in certain cases***

Under existing rules, the assets that enable a taxpayer to claim the accelerated depreciation deduction must be used solely in Québec for a minimum period. Thus, when the deduction is claimed for a taxation year ending before the end of such minimum period of use, the taxpayer must assume that he will honour this condition. Should it subsequently transpire that this condition is not satisfied, the taxpayer must correct the tax return he initially filed for such year.

When a taxpayer is tardy in correcting his tax return, the taxation year for which he benefited unduly from an accelerated depreciation deduction may be prescribed by the time the ministère du Revenu (MRQ) becomes aware of the taxpayer's omission.

The tax legislation will accordingly be amended to stipulate that in such a situation, the taxpayer is required to file an amended tax return.

More specifically, a taxpayer who fails to honour a time condition and as a result has unduly benefited from an accelerated depreciation deduction or related deduction for a taxation year will have to file an amended tax return with the MRQ for such year, and the prescriptive period for such item will begin to run only as of the day a new notice of assessment is mailed for such year.

This change will become effective on the date the bill giving effect to it is assented to.

### **3. CONSUMPTION TAXES**

#### **3.1 Québec sales tax**

##### ***3.1.1 Zero-rating of services relating to corporeal movable property usually located outside Québec but within Canada***

The Québec sales tax (QST) system currently provides for a rebate, on certain conditions, of the tax paid in respect of a service, other than a transportation service, supplied with regard to corporeal movable property usually located outside Québec but within Canada and brought into Québec temporarily, solely for the purpose of performing the service, provided the property is taken or shipped outside Québec to Canada as soon as possible after the service has been performed. This measure also applies to corporeal movable property supplied while the service is being provided.

However, owing to the introduction of the harmonized sales tax system in certain Atlantic provinces, this conditional rebate measure may create a competitive disadvantage at the interprovincial level for Québec businesses that supply such services.

Therefore, the QST system will be modified to replace this conditional rebate measure with a zero-rating measure in cases where the acquirer of the service and goods supplied during the provision of the service is registered under the goods and services tax system.

This change will apply to such services provided after the day of the Budget Speech.

##### ***3.1.2 Clarification concerning the exemption of 9-1-1 emergency call services***

In accordance with the current provisions of the QST system, 9-1-1 emergency call services acquired by a municipality should, in principle, be taxable, unless they are supplied to the municipality by one of its para-municipal organizations, in which case the services are exempt.

However, the aim of the government in formulating its fiscal policy in this regard was to exempt 9-1-1 emergency call services acquired by a municipality, regardless of the municipal intermediary from which they were acquired. The QST system will therefore be modified to specify that 9-1-1 emergency call services acquired by a municipality will be exempt if they are supplied by another municipality or by a commission or other body set up by the municipality.

This measure will apply retroactively to July 1, 1992.

### ***3.1.3 Partial rebate of the tax paid in regard to vehicles adapted for the transportation of persons with disabilities***

The QST system makes provision for the zero-rating of supplies of services that consist in modifying a motor vehicle to adapt it for the transportation of persons who use a wheelchair, and the zero-rating of goods supplied in the course of performing such services. However, this zero-rating measure does not apply to the supply of a motor vehicle already adapted for this type of transportation, even though a major portion of the price of the vehicle may be attributed to the services and goods used to adapt it.

To remedy this situation, the QST system will be modified to introduce a rebate of the amount of tax paid on the portion of the price of a motor vehicle that is attributable to the services and goods used to adapt it for transporting persons who use a wheelchair, to the extent that this amount will not be refunded otherwise.

To be eligible for this partial QST rebate, the recipient of an adapted vehicle must submit a request to that effect to the ministère du Revenu du Québec (MRQ). He may also submit a request directly to his supplier, who may then allow the recipient to benefit from the rebate as soon as the vehicle is supplied. The recipient must request the rebate using the prescribed form within the four-year period following the day on which he pays the QST. If he submits the request to the supplier, the latter must forward it to the MRQ along with his QST return for the reporting period in which he will pay the rebate to the recipient or credit it to him. All requests filed with the MRQ must be accompanied by proof from the supplier making it possible to establish the amount of QST related to adapting the vehicle.

This measure will apply to adapted vehicles supplied to individuals after December 10, 1992 and to persons other than individuals after April 23, 1996. Owing to the retroactive application of this measure, the four-year period for submitting a request will begin on the day after the day of the Budget Speech with regard to adapted vehicles supplied prior to that day. Requests relating to such vehicles must be submitted to the MRQ.

### ***3.1.4 Increase in the number of years covered by the reference books published by Hebdo Mag Inc.***

To limit tax avoidance with respect to transactions relating to used motor vehicles, rules have been established under the QST system to determine the market value of such vehicles for the purpose of calculating the tax payable on their sale. In general, the amount of QST payable is based on the sale price agreed upon by the parties to the transaction or the average wholesale price given in certain reference books, less \$500, whichever is higher.

The following reference books are used to determine the market value of used motor vehicles: the *Guide d'Évaluation des Automobiles* and the *Guide d'Évaluation des Camions Légers*, published by Hebdo Mag Inc. The average wholesale prices given in these books cover a period of only seven years. However, since the used motor vehicles market is becoming increasingly popular with consumers, transactions often concern vehicles that are more than seven years old. In this context, the scope of the rules provided for under the QST system for determining the market value of used cars has been reduced, a situation that could lead to tax avoidance.

To remedy this situation, the number of years covered by the average wholesale prices given in the reference books published by Hebdo Mag Inc. will be increased from seven to nine on June 1, 1998.

## **3.2 Fuel tax**

### ***3.2.1 Relaxation of the rule prohibiting the transfer of fuel to certain wholesale dealers***

The fuel tax system notably prohibits collection officers who have concluded an agreement with the MRQ from selling or delivering fuel to a wholesale dealer in Québec who does not hold a collection officer's permit. This restriction constitutes a control measure aimed at ensuring the tax is paid to the tax authorities.

This measure applies even if the collection officer agrees, only under exceptional circumstances, to sell the fuel to a wholesale dealer who does not reside in Québec and to deliver it directly to a client of the wholesale dealer who is also a collection officer bound by an agreement with the MRQ.

In view of the exceptional nature of such transactions and to avoid hampering the economic activities of Québec oil companies, the fuel tax system will be modified to allow a collection officer who has concluded an agreement with the MRQ to sell fuel, without having to collect the tax in advance, to a non-resident wholesale dealer who does not hold a collection officer's permit, if the collection officer delivers the fuel to a third party in Québec who is also bound by an agreement with the MRQ.

In addition, the fuel tax system will be modified to exempt wholesale dealers who do not reside in Québec from having to hold a collection officer's permit under such circumstances.

These modifications will apply starting on the day after the day of the Budget Speech.

### ***3.2.2 Transfer of tax rebates***

Under the fuel tax system, a person who purchases fuel for resale purposes or accepts delivery of it in designated regions, border regions, peripheral regions, specified regions or regions bordering on peripheral or specified regions must generally pay the collection officer who makes the sale an amount equal to the fuel tax calculated taking into account the reduction in the tax rate applicable to that region.

However, if a person accepts delivery of the fuel outside such a region, there is no provision for a reduction in the amount payable to the collection officer. Instead, he must request a refund of the portion of the tax he paid to the collection officer that exceeds the amount he collects in reselling the fuel, where applicable.

To simplify the administration of the fuel tax system, the latter will be modified to allow, on the conditions set by the MRQ, the transfer of such rebates to a collection officer bound by an agreement with the MRQ who sells fuel to a person entitled to the rebate. The collection officer will then be required to credit to the person, during a subsequent purchase of fuel, an amount equal to the tax payable by him.

This measure will also apply to the refund to which a person is entitled if he buys fuel for resale purposes from a collection officer bound by an agreement with the MRQ, accepts delivery of it within the territory of the Agence métropolitaine de transport and takes it or has it taken outside this territory.

These changes will apply beginning on the day after the day of the Budget Speech.

### ***3.2.3 Increase in working capital advances granted to wholesale dealers***

In accordance with an administrative policy of the MRQ, wholesale dealers who have not concluded an agreement with the department may obtain, on certain conditions, a working capital advance equal to an amount determined on the basis of their wholesale fuel sales over a reference period of 42 days.

To improve the competitive position of these wholesale dealers, the amount of the working capital advances offered to them will henceforth be determined on the basis of not only their wholesale sales but also their retail sales. However, the reference period for retail sales will be set at 15 days for working capital advances granted between the day of the Budget Speech and January 1, 1999, 30 days for those granted in 1999 and 42 days for those granted in subsequent years.

### **3.3 Taxes and duties on alcoholic beverages**

#### ***3.3.1 Abolition of the specific tax and duty applicable to the first 1 500 hectolitres sold by a small-scale producer***

The taxation of wine, cider and any other alcoholic beverage sold in Québec is determined by the place where the products are consumed. Alcoholic beverages sold for consumption in an establishment are subject to a specific duty based on volume, an *ad valorem* duty and the QST. As for alcoholic beverages sold for consumption elsewhere than in an establishment, they are subject to a specific tax established based on volume and the QST.

In general, the rates of the specific duty and tax applicable to wine, cider and any other alcoholic beverage, except beer, are set at 0.089 cents per millilitre. However, reduced rates are applicable to alcoholic beverages produced by small-scale producers who comply with certain conditions. The reductions are equal to roughly 50% on the first 1 000 hectolitres of alcoholic beverages sold by a small-scale producer in Québec in a given calendar year, and by roughly 25% on the next 500 hectolitres sold in this manner. The rate of the specific duty and tax is thus 0.045 cents per millilitre on the first 1 000 hectolitres sold, and 0.067 cents per millilitre on the next 500 hectolitres.

These reductions, which are currently granted in respect of the first 1 500 hectolitres of alcoholic beverages sold by a small-scale producer in Québec in a given calendar year, will be increased to 100%. As a result, the specific duty and tax applicable to the first 1 500 hectolitres sold in this manner will be abolished.

This measure will apply to all alcoholic beverages, except beer, sold by a small-scale producer starting on the day after the day of the Budget Speech.

#### ***3.3.2 Tax exemption for diplomatic and consular corps and international government organizations***

The Québec government grants certain tax privileges to diplomatic and consular corps and to certain international government organizations and their non-Canadian representatives. In accordance with these privileges, these persons may, for example, purchase alcoholic beverages without having to pay the QST or the specific tax applicable to such beverages.

The tax privilege relating to alcoholic beverages is presently granted by way of a rebate of the taxes paid on purchases of these beverages. The rebate is paid after the form provided for this purpose has been filed with the MRQ, along with the appropriate supporting documents.

Considering the manner in which persons who benefit from this tax privilege usually purchase alcoholic beverages and the control the Société des alcools du Québec (SAQ) may exercise in this regard, the details of application of this privilege will be relaxed under certain circumstances.

Diplomatic and consular corps, as well as international government organizations and their non-Canadian representatives, will henceforth be able to purchase alcoholic beverages without having to pay the QST or the specific tax applicable to these beverages, provided they make these purchases in an SAQ outlet designated for this purpose by the ministère des Relations internationales.

These changes will apply beginning on July 1, 1998.

### ***3.3.3 Harmonization of reporting periods***

Under the current legislation, sellers of alcoholic beverages who are required to remit the specific tax or licence duties applicable to such beverages must file a return in respect of this tax or these duties once a month. Under the QST system, however, such sellers may file returns on a monthly, quarterly or annual basis.

To reduce the administrative burden of small and medium-sized businesses, the legislation will be amended so that returns in respect of the specific tax and licence duties on alcoholic beverages are filed with the same frequency as under the QST system. Sellers of alcoholic beverages will thus be subject to the same reporting periods and filing deadlines for returns in respect of all the taxes and duties they have to remit to the MRQ.

In addition, alcoholic beverage sellers whose reporting period will henceforth be annual will have to pay instalments on the same conditions as those currently provided for under the QST system if the specific tax and licence duties they have to remit for the period amount to \$1 500 or more.

These changes will apply as of the next QST reporting period for sellers of alcoholic beverages, beginning on the day after the day of the Budget Speech.



### **3.4 Postponement of the application of the specific tax on lodging in the Lanaudière and Outaouais tourism regions**

On December 18, 1997, the Québec government announced that a specific accommodation tax of \$2 per overnight stay would be applied, starting April 1, 1998, to each sleeping-accommodation unit rented in a sleeping-accommodation establishment located in the Lanaudière and Outaouais tourism regions. However, in the wake of an agreement concluded between the tourism associations of these regions and the government, it has been decided that the application of the specific tax on lodging in these regions will be postponed to a date that will be specified later.

## **4. OTHER FISCAL MEASURES**

### **4.1 Introduction of provincial tax anti-avoidance rules pertaining to trusts**

In general, the beneficiary of a trust must include in the calculation of his income for a given year that part of the trust income that became payable to the beneficiary during that year. As a corollary, the trust must deduct that amount in the calculation of its income.

However, various provisions of the tax legislation provide for the possibility for a trust derogating from the general principle of taxing income from a trust in the hands of the beneficiary, simply by designating an amount in that respect in its income tax return. In such a case, the trust is taxed on the amount in question, and the beneficiary does not have to include the amount in the calculation of his income.

In addition, a trust and one of its preferred beneficiaries can make a joint election to include a part of the accumulated income of the trust in the calculation of the beneficiary's income, although that part of the trust's income has not yet become payable to the beneficiary. When such an election is made for one of the trust's taxation years, the amount designated in the election may be deducted in the calculation of the trust's income for that year and must be included in the calculation of the beneficiary's income for the taxation year during which the trust's taxation year ends. In addition, this amount need not be included in the calculation of the income of the beneficiary for a subsequent taxation year during which the amount will become payable.

Québec and federal tax legislation are identical in this respect, but are independent. An amount must therefore be designated, where applicable, for each of the two levels of government.

The existence of Québec designations that are distinct from federal designations may give rise to transactions to avoid provincial income tax that are contrary to tax policy. The designation of an amount by a trust is not intended as a means of avoiding provincial income tax.

To correct this situation, tax legislation will be amended so that, if a trust makes a designation for federal income tax purposes, a designation will be deemed made for Québec income tax purposes.

As a corollary, if no designation is made for federal income tax purposes, it will not be possible to make a designation for Québec income tax purposes.

For further clarification, these amendments will apply not only to trusts residing in Québec, but also to trusts residing elsewhere in Canada that have a beneficiary liable for Québec income tax.

When a designation is deemed made for Québec income tax purposes, because of the existence of a designation for federal income tax purposes, the amount deemed to have been designated will be equal to the lesser of the following:

- the amount designated for federal income tax purposes;
- the amount of the trust's income or capital gain, depending on the case, determined for Québec income tax purposes.

The trusts that designate an amount for federal income tax purposes must file a copy of the designation with their Québec income tax return.

These amendments will apply with respect to the fiscal year of a trust that ends after the day of the Budget Speech.

## **4.2 Amendments to certain rules governing associated corporations**

Generally speaking, a taxpayer who acquires land and does not use it to operate a business or hold it principally to earn income can only deduct the interest on a debt incurred to acquire the land or the property taxes related to it, in the calculation of his income for a given taxation year, up to the amount the gross income from the land for that year exceeds the expenses incurred to earn that income.

However, if the taxpayer is a corporation whose main undertaking consists in renting or selling immovables to people with whom it is at arm's length, the limit is increased by the corporation's basic deduction. Briefly, this deduction, for a given year, is equal to the amount the interest for that year would be, calculated at the prescribed rate, with regard to a loan of \$1 000 000 that has been outstanding throughout the year. However, if the corporation is associated with one or more corporations during the year, this deduction must be apportioned among those corporations through an agreement to that effect filed with the ministère du Revenu (MRQ).

Similarly, when, within the framework of R&D, a corporation incurs, in a given year, expenses in the form of a salary for an employee who is a designated shareholder of the corporation or who is at non-arm's length with such a shareholder, only that part of the expenditure that does not exceed a ceiling that corresponds, briefly, to five times the maximum eligible earnings set under the *Act respecting the Québec Pension Plan* for the calendar year in which the corporation's year ends may be considered to be an R&D expenditure. However, if the corporation is associated with one or more other corporations during the year and the employee worked for more than one of those corporations, the ceiling must be apportioned among those corporations and an agreement to that effect filed with the MRQ.

Federal legislation is similar to Québec legislation in this respect. However, the agreements for the apportionment of income that must be filed with Revenue Canada are not the same as those that must be filed with the MRQ.

Since the Québec agreements are separate from the federal ones, a group of associated corporations, one of which does business in a province other than Québec, can benefit from provincial deductions that are higher than the basic deduction or ceiling, depending on the case, described above.

To correct this situation, the tax legislation will be amended so that, in the case of a group of associated corporations, one of which has an establishment in a province other than Québec, the apportionment, among these corporations, of the basic deduction or the ceiling, depending on the case, will be deemed to be identical, for Québec income tax purposes, to the apportionment determined for federal income tax purposes. Thus, it will no longer be necessary to file a separate Québec agreement for this purpose with the MRQ, but only a copy of the agreement filed with Revenue Canada.

These amendments will apply as of the 1998 taxation year.

#### **4.3 Broadening of the field of application of the anti-avoidance rule pertaining to centralized payroll systems**

In the March 25, 1997 Budget Speech, an anti-avoidance rule was introduced pertaining to centralized payroll systems.

In short, this rule states that, to determine the proportion of business conducted in Québec by a corporation, the amount that can reasonably be considered to be the wage earned by an employee for services rendered in Québec to a corporation is deemed to be the wage paid by the corporation to an employee of an establishment of the corporation located in Québec for the corporation's taxation year during which the wage was paid to the employee by his employer. However, the Minister of Revenue can decide, at his discretion, that this presumption does not apply to a corporation for a given taxation year.

The list of elements that the Minister of Revenue can consider in exercising his discretion will be extended to include any operation, any arrangement and any event that, in his opinion, is intended to reduce the total taxes payable in Québec by the corporation or by the corporation and the employer.

This amendment will apply with respect to a taxation year or a fiscal year, depending on the case, that ends after the day of the Budget Speech.

#### **4.4 Technical amendment to the addition mechanism with respect to the foreign tax credit**

Federal tax legislation allows a corporation to add an amount to its taxable income when its income tax payable is insufficient to use foreign tax credits that would otherwise be lost. In return, an identical amount is added to losses other than capital losses, which can be used to reduce taxable income of another taxation year included in the carry-over period.

Originally, Québec tax legislation required a taxpayer to include in the calculation of his taxable income and losses other than capital losses the amounts added as such for federal income tax purposes. In the Budget Speech of May 14, 1992, this requirement was withdrawn. This change applied as of the 1990 taxation year, whereas the addition mechanism with respect to the foreign tax credit had been in existence since the 1985 taxation year.

Some taxpayers may have been penalized by the rules that applied in the taxation years from 1985 to 1989. In the present context, they cannot benefit from the changes announced in the Budget Speech of May 14, 1992.

A change will be made to the tax legislation in order to give the Minister of Revenue discretionary power enabling him to apply to a taxpayer, for the taxation years from 1985 to 1989, the rules announced in the Budget Speech of May 14, 1992, when he is of the opinion that the old rules may have been prejudicial to the taxpayer.

#### **4.5 Tax treatment of allowances previously paid by order in council**

Under current rules, all the remuneration paid by an employer for services rendered by an employee are taxable in the year in which they are received. This remuneration includes any allowance paid by the employer, except when tax legislation or regulations expressly stipulate that the allowance need not be included in the calculation of the income from an office or employment.

One of the exceptions thus provided for in the tax regulations concerns allowances for travel expenses, personal expenses and living expenses or representation expenses set by an order in council of the Québec government or a decision of the Conseil du trésor.

Recently, the legal framework for the payment of certain allowances set by order in council of the government was changed. As a result, these allowances are no longer contemplated by the exception that made them non-taxable. In order to maintain the tax treatment of these allowances, the tax regulations will be amended.

To this end, the tax regulations will be amended to exclude from the calculation of employment income any allowances for travel expenses, personal expenses, living expenses or representation expenses set by a collective agreement concluded under the *Act respecting labour relations, vocational training and manpower management in the construction industry*.

This amendment will apply beginning in the 1998 taxation year.

#### **4.6 Addition of a power to make regulations**

At present, the *Act respecting the Application of the Taxation Act* includes a number of specific provisions making it possible to pass regulations. However, there is no provision stipulating that the government can make regulations generally to prescribe the measures required for the application of the law.

The *Act respecting the Application of the Taxation Act* will be amended to integrate a general power to make regulations under this Act.

This measure will come into force on the date on which the bill acting on it is assented to.

#### **4.7 Clarification respecting the status of certain Indian corporations**

Under existing legislation, an Indian band is exempted from all taxation on personal property located on a reserve or in an establishment.

The Société de développement de Oujé-Bougoumou and the Ouje-Bougoumou Eenuch Association resemble an Indian band or, more particularly, an Indian band council.

The legislation will therefore be amended to specify that, for the purposes of Québec tax legislation, the Société de développement de Oujé-Bougoumou and the Ouje-Bougoumou Eenuch Association must be treated as though they were Indian bands.

This amendment will apply retroactively as of the 1992 taxation year.

#### **4.8 Relaxation pertaining to the administration of the tax exemption for home-care services**

In the March 25, 1997 Budget Speech, it was announced that financial support would be provided for the creation, in particular, of a financial remission program for households using home-care services provided by firms in the social economy.

In order to simplify the administration of this program and promote access to it, the *Act respecting the Ministère du Revenu* will be amended to authorize the ministère du Revenu to transmit to the administrator of the program the information required to determine the assistance granted under the program.

#### **4.9 Simplification of the mechanism enabling an employer to limit contributions to the Québec Pension Plan**

Under the existing provisions of the *Act respecting the Québec Pension Plan*, an employer who succeeds another employer without any interruption in the work of a wage-earner may have to pay excess contributions to the Québec Pension Plan (QPP).

More particularly, an employer may pay excess contributions to the QPP if, in the course of a year, he immediately succeeds another employer following the creation or dissolution of a corporation, or the acquisition of most of the property of a business or a distinct part of a business, without there being any interruption in the services provided by the wage-earner.

In such situations, the employer can obtain a refund of the overpayment by applying in writing to the Minister of Revenue within the four years that follow the end of the year for which he made the overpayment. As for the employee who made excess contributions to the QPP, he may be refunded when he files his income tax return.

In order to permit all employers and employees to benefit from the current tax policy more rapidly and at a lower cost, amendments will be made to the *Act respecting the Québec Pension Plan* so that when an employer immediately succeeds another employer without any interruption in the work of employees, he can take into account the amounts already deducted as contributions by employees and the amounts already paid, as contributions, by the previous employer since the beginning of the year.

This amendment will apply as of the day of the Budget Speech.

#### **4.10 Technical amendment pertaining to duties on transfers of immovables**

The *Act respecting duties on transfers of immovables* obliges all municipalities to collect a duty on the transfer of any immovable situated within their territory. This law provides for exemptions from the payment of this duty in certain cases, such as when the transfer involves two corporations that belong to the same corporate group.

Some transfers of immovables between corporations belonging to the same group cannot be exempted under the wording of the existing provisions, unless an unnecessary number of transactions are carried out to reach the desired result.

To deal with this shortcoming, present exemptions involving two corporations will be replaced by a general exemption for any transfer between two closely related corporations.

To that end, a particular corporation and another corporation will be closely related to each other at any time if the other corporation is a corporation not less than 90% of the issued shares of the capital stock having full voting rights of which are owned:

- by the particular corporation;
- by a qualifying subsidiary of the particular corporation;
- by a corporation of which the particular corporation is a qualifying subsidiary;
- by a qualifying subsidiary of a corporation of which the particular corporation is a qualifying subsidiary;
- by one or more of the corporations or subsidiaries contemplated in the preceding sub-paragraphs.

The expression "qualifying subsidiary" of a particular corporation means another corporation not less than 90% of the issued shares of the capital stock having full voting rights of which are owned by the particular corporation.

This amendment will apply to a transfer made after the day of the Budget Speech.

#### **4.11 Progress made by the three task forces set up under last year's Budget Speech**

In the Budget Speech of March 25, 1997, the government announced the creation of three task forces made up of representatives of the ministère des Finances and the ministère du Revenu du Québec (MRQ).

These task forces were mandated to review the principles underlying certain fiscal measures and identify any legislative amendments that could be made to improve those measures and reduce the uncertainty surrounding their application.



The measures analysed deal with the rules governing the apportionment of business among the provinces, the tax treatment of secondary business losses and the lucrative operations of non-profit organizations.

The task forces will continue their work over the coming months and will hold consultations, if necessary, on some of these measures.

## 5. FEDERAL LEGISLATION AND REGULATIONS

### 5.1 Notice of Ways and Means Motion of December 8, 1997

On December 8, 1997,<sup>6</sup> the federal Minister of Finance tabled, in the House of Commons, a Notice of Ways and Means Motion concerning the income tax measures announced in the February 1997 Budget, and certain other measures, many of which were included in the draft legislation tabled in 1997. The proposed legislation contained mostly technical amendments pertaining to income tax.

Although the ministère des Finances has already expressed an opinion on a number of special measures presented in this notice of motion, it should be mentioned that, in general, Québec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the special measures announced. However, the measures will only be adopted after the approval of any federal law arising from these announcements, taking into account technical amendments that might be made prior to its approval. Moreover, they will apply on the same dates as for federal income tax purposes.

Some of the provisions of this notice of motion will not be retained because they do not correspond to the features of Québec's tax system or because Québec's present legislation does not contain corresponding provisions. The federal measures not retained are shown in the following list, and relate to:

- the reduced inclusion rate applicable to capital gains arising from certain gifts of securities (6);<sup>7</sup>
- benefits received under the CPP or the QPP (9);
- a technical amendment to the English version of the definition of "earned income" (10);
- the special provisions applicable to a corporation formed as a result of an amalgamation, owing to the existence of a generic provision in the *Taxation Act* (15 and 117);
- the special provisions applicable to the winding-up of a subsidiary, owing to the existence of a generic provision in the *Taxation Act* (16);

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6 Federal Department of Finance news release 97-117.

7 The references in parentheses correspond to the number of the clause concerned in the notice of ways and means motion published on December 8, 1997.

- the annual income threshold relating to charitable donations and gifts to the Crown, and the increase in this threshold in certain cases (subject to a similar measure presented in subsection 1.3) (20 and 22 in part);
- the provision pertaining to the annual indexation of certain deductions and other amounts (21);
- the education tax credit (27 and 28 in part);
- the transfer of unused education and tuition tax credits to a spouse (29);
- the transfer of the education and tuition tax credits to a parent or a grandparent (30);
- the reduction threshold and the refundable medical expense supplement (32);
- the investment tax credit (33);
- the amendment relating to alternative minimum tax (35);
- capital gains arising from gifts to national arts service organizations (41.1);
- the tax on capital of financial institutions (48);
- the tax on excess contributions to RRSPs (49);
- labour-sponsored venture capital corporations (50 to 56);
- the tax on overcontributions to RESPs (57 and 58);
- the amendments to Part XIII income tax (62 to 64);
- taxpayer information (65);
- the deduction for dues paid to a professions board, used in computing income from office or employment (69(1));
- the deductibility of certain dues (69(4) and (5));
- a technical amendment with regard to R&D (86(1));
- a correction relating to the tax treatment of support payments (98 and 100);

- amendments pertaining to references to former Part II income tax (118(10) and (11));
- a clarification concerning the application of a reference (130(1));
- an amendment concerning the age tax credit (134);
- the claiming of tax credits by an individual who goes bankrupt (136);
- the amendment concerning the child tax credit (138);
- the amendment relating to the GST credit (139);
- the amendments pertaining to the child tax benefit (140 to 144);
- the correction of an error in the English version relating to the small business deduction (145(1));
- the amendment to the definition of specified investment business to include a business carried on by a labour-sponsored venture capital corporation referred to in the regulations (145(3));
- the film or video production services tax credit (subject to the terms and conditions of a similar measure presented in subsection 2.6.1) (145.1);
- the amendments concerning the investment tax credit (146);
- the adjustment to the paid-up capital of the shares of a corporation that becomes resident in Canada (153);
- the refundable dividend tax on hand (RDTOH) (154);
- the amendments pertaining to the capital gains refund and the RDTOH of a mutual fund corporation (157(1) and (2));
- non-resident-owned investment corporations (160);
- cooperative corporations (161);
- an amendment relating to insurance corporations with regard to refundable additional tax on the investment income of Canadian-controlled private corporations (162);
- an amendment to the English version with regard to EPSPs and RRSPs (169(1));
- the amendment to the English version of the definition of "annuitant" (170(1));

- the definition of normal reassessment period (181(3), (4) and (5));
- tax transfer payments (183);
- the reduction of the amount to be paid by instalments in respect of the refundable investment tax credit (184(2));
- certain amendments concerning refunds of overpayments of tax (190(1) to (5));
- a provision relating to referrals of notices of objections (192(4));
- amendments pertaining to reassessments (192(5));
- certain amendments relating to large corporations tax (194, 198 and 199);
- the amendments to Part IV tax (200);
- the amendments to Part IV.1 tax (201);
- certain amendments to the tax on capital of financial institutions (202 and 204 to 206);
- the amendments to Part VI.1 tax (207 and 208);
- the amendments concerning labour-sponsored venture capital corporations (209);
- the amendments pertaining to foreign property tax (210);
- the penalty tax on pension funds and other deferred income plans (211);
- the amendments relating to the tax on investment income of life insurers (213 to 215);
- the amendments concerning the tax on income of non-residents (216 and 217);
- the branch tax (218 and 219);
- the tax payable when a corporation ceases to be a Canadian corporation (220 and 220.1);
- certain provisions relating to the administration and enforcement of the *Income Tax Act* (221 and 222);

- the application of certain provisions pertaining to amounts payable pursuant to a judgment concerning the allocation of court costs (223);
- certificates specifying that an amount is payable (224);
- restrictions relating to the collection of unpaid amounts (225);
- certain rules relating to withholding tax, penalties and contributions (226(2) and (3));
- electronic records (227);
- the amendment pertaining to solicitor-client privilege (230);
- the extension of the rules concerning information returns to partnerships and individuals (231);
- certain requirements related to reporting (232);
- certain provisions concerning taxpayer information (236);
- the presumption with regard to documents purported to have been executed in accordance with the *Income Tax Act* (237(2));
- the amendments pertaining to deemed trusts (250);
- the amendments to the CPP (251 to 257);
- the amendments to the *Children's Special Allowances Act* (258 and 259);
- the amendments to the *Companies' Creditors Arrangement Act* (260);
- the amendments to the *Cultural Property Export and Import Act* (261);
- the amendments to the *Customs Act* (262 to 265);
- the amendments to the *Employment Insurance Act* (266 to 274 and 302);
- the amendments to the *Excise Tax Act* (275 to 285);
- the amendments to the *Income Tax Conventions Interpretation Act* (286 and 287);
- the amendments to the *Old Age Security Act* (288);
- the amendments to the *Tax Court of Canada Act* (289 to 298);

- the amendments to the *Tax Rebate Discounting Act* (299 to 301);
- the amendments to the *Western Grain Transition Payments Act* (303);
- the amendment to a provision concerning coming-into-force (306).

In addition, the amendment pertaining to the inclusion, in the calculation of income, of certain amounts received as financial assistance under certain programs (97) will be adapted to provide for an exception for certain prescribed programs. As for the extension of the application of the penalties for false statements or omissions (189(2)), this measure will be retained and adapted to all refundable tax credits granted under Québec's tax legislation to taxpayers who operate a business. Lastly, the amendments concerning the definition of the capital of a financial institution (196) will be retained and adapted for the purposes of the tax on capital of life insurers.

## **5.2 News release issued by the federal Department of Finance on January 15, 1998**

On January 15, 1998, the Secretary of State (International Financial Institutions) issued a news release (98-006)<sup>8</sup>, on behalf of the federal Minister of Finance, outlining draft amendments to the tax treatment of mortgage investment corporations under the *Income Tax Act*.

Québec's tax system will be amended to incorporate, with adaptations based on its general principles, the federal measures in this regard. However, the measures will only be adopted after the approval of any federal law arising from this draft legislation, taking into account technical amendments that might be made prior to its approval. Moreover, they will apply on the same dates as for federal income tax purposes.

## **5.3 Federal Budget Speech of February 24, 1998**

On February 24, 1998, the federal Minister of Finance tabled, in the House of Commons, a Notice of Ways and Means Motion to Amend the *Income Tax Act* and a Notice of Ways and Means Motion to Amend the *Excise Tax Act*. Québec's tax legislation and regulations will be amended in this regard to incorporate some of the measures announced. However, these measures will only be adopted after the approval of any federal law arising from these notices of motion, taking into account technical amendments that might be made prior to its approval. They will apply on the same dates as for the purposes of federal income tax and the federal tax system.

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<sup>8</sup> The reference in parentheses corresponds to the number of the federal Department of Finance news release.

### **5.3.1 Measures pertaining to the Income Tax Act**

#### **Measures retained**

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

1. the non-refundable tax credit for interest paid on student loans, subject to a tax credit of 23% for Québec tax purposes and an indefinite carry-forward period (this measure is described in detail in subsection 1.1) (BR 3 in part);<sup>9</sup>
2. the tax-free withdrawal of funds from an RRSP for full-time studies (BR 4);
3. the eligibility of child care expenses incurred by parents enrolled in courses on a part-time basis, for the purposes of the refundable credit for child care expenses (BR 5 in part);
4. the amendments pertaining to RESPs, including the details of application or registration for RESPs arising from the introduction of Canada education savings grants (BR 6 in part, 7b, 8, 9 and 10);
5. the amendments made with regard to the alternative minimum tax (BR 13);
6. the Home Buyers' Plan (BR 17 to 19);
7. the medical expense tax credit (BR 20);
8. the disability tax credit (BR 21);
9. the introduction of a deduction for amounts received by certain volunteers (BR 22);
10. the amendments relating to meal and entertainment expenses (BR 23 and 24);
11. moving expenses (BR 25 and 26);
12. employee loans (BR 27);
13. the amendments concerning cultural property, subject to the specific features of Québec legislation pertaining to cultural property (BR 28 and 29);

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<sup>9</sup> The references in parentheses correspond to the number of the budget resolution in the notices of ways and means motions tabled on February 24, 1998.



14. stock options granted by mutual fund trusts to their employees (BR 30);
15. the new rules relating to countervailing and anti-dumping duties (BR 32);
16. distributions made by mutual fund trusts after year-end (BR 33);
17. the extension of the concept of financial institution used with regard to the large corporations tax (BR 34);
18. a compensating adjustment to the R&D investment tax credit, but only with regard to the application of the refundable tax credit for pre-competitive research or catalyst projects (BR 35);
19. amounts received as assistance or inducements (BR 36);
20. the calculation of taxable income earned in Canada with regard to amounts exempt from tax under a tax agreement (BR 37);
21. the foreign tax credit, with respect to the amendments concerning income other than business income (BR 38 in part);
22. the new rule relating to deemed residence (BR 41 and 42);
23. foreign income of former Canadian residents (BR 43);
24. the amendments relating to corporations that become resident in Canada, except for those concerning branch tax and the calculation of the paid-up capital of a corporation's shares (BR 44 in part);
25. the amendments to the foreign tax credit with regard to short-term securities acquisitions and profits that are not material (specifically, the changes concerning income other than business income) (BR 46 and 47 in part);
26. amounts owing by non-residents (BR 49);
27. mergers of foreign corporations (BR 50);
28. earthquake reserves (provided these reserves comply with the guideline on Earthquake Sound Practices, which will be made public by the Inspector General of Financial Institutions of Québec).<sup>10</sup>

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<sup>10</sup> Annex 7, Tax Measures: Supplementary Information and Notices of Ways and Means Motions tabled on February 24, 1998, page 206.

## Measures not retained

Some measures have not been retained because they do not correspond to the features of Québec's tax system or because Québec's tax system does not contain corresponding provisions. This applies to the measures relating to the supplementary personal tax credit (BR 1), the individual surtax (BR 2), a detail of application with regard to the penalty for overcontributions to an RESP (BR 11), the Part VI surtax (BR 31), information returns of non-resident corporations (BR 40), the rule relating to surplus stripping by non-resident shareholders (BR 45) and non-residents' certificates of exemption (BR 48).

Other measures have not been retained because Québec's tax system is satisfactory in this regard. This applies to the measures relating to the education tax credit (BR 5 in part), Canadian education savings grants (BR 6 in part and BR 7(a)), the deductibility of contributions to supplementary health care and dental insurance plans (BR 12), the increase in the maximum annual amounts for the purposes of the refundable child care tax credit (BR 14), the child tax benefit (BR 15), the caregiver tax credit (BR 16), the amendments pertaining to dual residence (BR 39), and the reporting of taxpayer information (BR 51).

### ***5.3.2 Measures pertaining to the Excise Tax Act***

In accordance with the principle of substantial harmonization of the Québec sales tax (QST) and goods and services tax (GST) systems, the QST system will be generally harmonized with the federal tax system, subject to the specific features of Québec's tax system and taking the provincial context into account.

## Measures retained

The QST system will be amended to incorporate, with adaptations based on its general principles, the federal measures relating to:

1. direct sellers (BR 1 to 6);
2. services supplied by certain charities to registrants (BR 7 to 15);
3. charities operating bottle return depots (BR 16 to 19);
4. the visitors' rebate program (BR 20 to 36);
5. respite care for individuals with an infirmity or disability (BR 37 to 39).

## **6. RECOVERY PLAN FOR THE HORSE-RACING INDUSTRY**

A measure was announced in last year's Budget Speech to transform the Hippodrome de Montréal. Within the framework of the recovery plan for the horse-racing industry, Loto-Québec will take a similar step in order to grant temporary financial support to the Société de promotion de l'industrie des courses de chevaux inc. (SPICC) and ensure financing for the modernization of the Hippodrome de Québec, the cost of which is estimated at \$9 million. This temporary contribution will be financed using the money already allocated to SPICC, which corresponds to the commission collected annually by Québec racetracks with respect to video lottery machines. The contribution will be conditional on the conclusion of a long-term agreement with ExpoCité and will end with the extinguishment of the \$9-million debt contracted by SPICC to finance the modernization.

A bill will be tabled shortly to create the Société nationale d'encouragement du cheval québécois (SONECQ), which will take over from SPICC. Among other things, this bill will put the management of this industry back into the hands of the people involved in it, and ensure that the government will recuperate the money it invested, should the industry be sold to a third party.

Lastly, amendments to the legislation governing horse racing will be made in the near future to give organizations that hold races or operate training stables greater responsibility, and to make it possible to improve the pertinent regulations in order to better protect the public.

## Section 2

### Expenditure Measures

<b>1.</b>	<b>NEW TOOLS FOR INCREASING INVESTMENTS .....</b>	<b>1</b>
<b>1.1</b>	<b>Better promotion and financial assistance tools .....</b>	<b>1</b>
1.1.1	Creation of Investissement-Québec .....	1
1.1.2	Private Investment and Job Creation Promotion Fund (PIJCPF) .....	1
<b>1.2</b>	<b>Restructuring of government investment corporations.....</b>	<b>3</b>
1.2.1	Innovatech corporations.....	3
1.2.2	Innovatech Régions resources .....	4
<b>1.3</b>	<b>Further developmental investments .....</b>	<b>4</b>
1.3.1	Support for the development of the mining industry .....	4
1.3.2	Extending the gas network into the regions .....	4
1.3.3	Additional financial assistance for waterworks, sewer and wastewater treatment infrastructures.....	5
1.3.4	Additional financial assistance for the management of private forests .....	5
1.3.5	Agri-food Exports Development Fund .....	6
1.3.6	Financing agriculture/agri-food sector research .....	7
1.3.7	Support for the development of traditional farm products.....	8
1.3.8	Improvements to the Agro-environmental Investment Assistance Program .....	8
1.3.9	Creation of an agro-environmental research and development institute .....	9

1.3.10	Québec City (Capital) Economy Diversification Fund .....	10
1.3.11	Assistance for the National Optics Institute .....	10
1.3.12	Tourism promotion and development.....	11
1.3.13	Agence de l'efficacité énergétique.....	11
<b>2.</b>	<b>HELPING YOUNG PEOPLE TO SUCCEED .....</b>	<b>12</b>
<b>2.1</b>	<b>Strengthening links between training and the workplace .....</b>	<b>12</b>
2.1.1	Financing of cooperative education.....	12
2.1.2	Fonds étudiant solidarité travail du Québec (FESTQ) .....	12
2.1.3	Financial assistance for the development of short training programs .....	13
2.1.4	Development of doctoral programs in partnership with industry.....	15
2.1.5	Program to assist unemployed engineers to shift careers to the information technologies.....	15
2.1.6	International Telecommunications Training Centre (ITTC) ....	16
<b>2.2</b>	<b>Supporting job creation for young people.....</b>	<b>17</b>
2.2.1	Enhancement of the Science and Technology Skills Improvement Program .....	17
2.2.2	Creation of summer jobs and internships for students in the public service.....	19
2.2.3	Québec-World internships .....	20
2.2.4	Employability Development Program for New Graduates .....	21
2.2.5	Broadening of the Impact-PME Program .....	21
2.2.6	Plan to improve tourism supply in natural environments.....	22
<b>2.3</b>	<b>Helping young people in difficulty .....</b>	<b>23</b>
2.3.1	Substance abuse programs and services .....	23
2.3.2	Suicide prevention.....	24

2.4	Quality services for young children: subsidized educational services and day care services.....	25
3.	PROMOTING FINANCIAL SECTOR DEVELOPMENT.....	26
3.1	Development of a strategy for promoting Montréal as an international financial centre.....	26
3.2	Creation of an international training and research institute in financial mathematics and financial intermediation .....	27
4.	SUPPORTING CULTURE AND CULTURAL INDUSTRIES.....	28
4.1	Policy on reading and books.....	28
4.2	Québec policy on the information highway .....	28
4.3	Creation of an interim financing program for the refundable tax credit for multimedia productions .....	29
4.4	Financial stabilization of cultural organizations.....	29
4.5	Development of cultural markets .....	30
4.6	Additional financial assistance for the restoration and preservation of Québec's religious heritage and improvement of cultural facilities and public libraries.....	30
5.	OTHER EXPENDITURE MEASURES.....	32
5.1	Institut pour le développement de l'économie et de l'emploi (IDEE).....	32
5.2	Support for the development of the aboriginal nations .....	32
5.3	Articling positions at the ministère de la Justice .....	32
5.4	Financial assistance for regional county municipalities and urban communities.....	33
5.5	Financial remission program for domestic help services.....	33
5.6	Provision for collecting all revenue owed to the government.....	34
5.7	Regional development councils.....	34



## **1. NEW TOOLS FOR INCREASING INVESTMENTS**

### **1.1 Better promotion and financial assistance tools**

#### ***1.1.1 Creation of Investissement-Québec***

Québec offers many advantages as a venue for capital investment projects. It is important that these advantages be advertised, particularly since provinces and nations compete so fiercely to attract new investments.

Investissement-Québec will be set up using resources from the Société de développement industriel (SDI) and the Direction générale des investissements étrangers of the ministère de l'Industrie, du Commerce, de la Science et de la Technologie. Consequently, Investissement-Québec will replace the SDI and will report to the Minister of Finance. The act creating this new corporation should ensure that it enjoys the necessary leeway to fulfil its mandate effectively.

Investissement-Québec will receive a recurring amount of \$10 million to promote Québec, organize activities related to investment prospecting and the coordination of government action, and support the activities of its subsidiary devoted to SMB financing. This amount will come from an estimated \$8 million in revenue from mandates administered on the government's behalf, and from supplementary appropriations.

To this end, a budget of \$2 million will be granted to the ministère des Finances. In 1998-1999, this sum will come from the Contingency Fund.

#### ***1.1.2 Private Investment and Job Creation Promotion Fund (PIJCPF)***

The two main investment-support programs, i.e. the Private Investment and Job Creation Promotion Fund (PIJCPF) and the Industrial Development Fund (IDF), will be merged.

Continuing under the name PIJCPF, this new program will run 5 years, until March 31, 2003, and will enjoy budgetary commitments of \$500 million. This envelope will be divided among the main departments with an economic mandate, and a specific amount will be slated for projects in the Québec City (Capital) region. The Minister of State for the Economy and Finance will be able to reallocate sums based on real needs.



Essentially, current PIJCPF program standards will remain in effect, although the following adjustments will be made to harmonize the program with the IDF:

- to accelerate the financial assistance authorization process, certain conditions currently in effect under the existing IDF will apply to the PIJCPF program as a whole. For instance, the Minister of State for the Economy and Finance may award financial assistance to cover a maximum of 15% of project costs, provided this amount is less than \$10 million. Moreover, business assistance offers should be forwarded within 20 days of receiving the business plan;
- maximum assistance may also be based on a project's fiscal impact, i.e. 75% of the direct impact for the first five years, excluding the construction phase. Further, the maximum amount granted should take other forms of assistance awarded by the Québec government into account;
- the new PIJCPF program targets:
  - projects involving investments of more than \$10 million or creating more than 100 jobs;
  - projects involving investments of more than \$2 million and creating more than 50 jobs in:
    - the mining sector;
    - firms setting up operations in Québec for the first time;
    - the multimedia and call centre sectors;
  - current threshold levels will continue to apply to projects received before the day of the Budget Speech by the Ministère de l'Industrie, du Commerce, de la Science et de la Technologie or by the SDI;
- manpower training assistance will henceforth be available under the mining investment support component;
- the program will also offer financial assistance for feasibility or profitability studies conducted prior to the obtainment of an international production or services mandate by a Québec subsidiary. The maximum in this respect will be 50% of eligible expenses;
- eligible sectors of activity will be those included under the PIJCPF program plus the storage sector, which is currently eligible under the IDF. These sectors will be defined according to Québec's classification of economic activities;

- firms must show that the financial assistance is necessary for project implementation or for setting up operations in Québec;
- the project must begin less than six months after the financial assistance is authorized, failing which the government's commitment will be cancelled.

The SMB loan guarantee program currently administered by the SDI will be transferred to an Investissement-Québec subsidiary. Since this program currently shows a deficit, the government, as of fiscal 1998-1999, will implement a new rule allowing it to assume gross program losses of up to 7% of the amounts authorized. The budget slated for this purpose will be \$75 million over the next five years. The necessary sums will be included in the Private Investment and Job Creation Promotion Fund. Moreover, the Minister of State for the Economy and Finance may reallocate budgets between the PIJCPF and Garantie-Québec programs.

As of 1998-1999, the method for establishing the operating expenses of Investissement-Québec's subsidiary will be defined in the corporation's three-year business plan. This plan, which must be approved by the government, will ensure that the government's contribution reflects the volume of the subsidiary's activities. However, in 1998-1999, the government will not adjust its contribution. In 1999-2000, supplementary amounts of \$2 million will be slated for this purpose.

In addition to the budget earmarked by the ministère des Finances du Québec (MFQ) for the PIJCPF and by the ministère de l'Industrie, du Commerce, de la Science et de la Technologie for the FDI, an additional \$44 million will be allocated to the MFQ in 1998-1999 from the Contingency Fund.

## **1.2 Restructuring of government investment corporations**

### ***1.2.1 Innovatech corporations***

The Innovatech corporations will be made capital stock corporations in order to consolidate their financial resources and enable them to pursue their activities beyond the year 2000.

The capital available to these corporations for investment in technological development firms will be increased by \$75 million.

The corporations' new status will change the method used to record provisions for losses related to their investments, thereby reducing the budgetary estimates awarded them for this purpose.

## **1.2.2 *Innovatech Régions resources***

A new Innovatech corporation dedicated to technological project start-up will be created. It will receive funding of \$50 million and will report to the Minister of Industry, Trade, Science and Technology.

To support this new corporation in its infancy, the government will cover its operating expenses for a maximum 5-year period, i.e. \$300 000 the first year and an annual \$700 000 the next four years.

In 1998-1999, the necessary appropriations will be taken from budgets freed up by the MICST once the other Innovatech corporations have been made capital stock corporations. Consequently, the estimates forecast for the MICST in the 1998-1999 Estimates, will be decreased by \$4.2 million.

## **1.3 Further developmental investments**

### **1.3.1 *Support for the development of the mining industry***

The mining industry is a key sector of the Québec economy, and the cornerstone of many regional economies including those of Abitibi-Témiscamingue, Côte-Nord and Nord-du-Québec. Faced with the challenges of globalization, the government intends to continue supporting the development of an innovative, competitive mining industry.

As a result, an additional \$18 million, or an annual \$6 million for three years, will be awarded to support mining industry development.

These amounts will be used notably for studies and work designed to discover new mining deposits, further process mineral substances, diversify mining production, implement public or private mining infrastructures in the context of mining deposit production projects, and enhance productivity and technological innovation.

In the coming years, these specific measures should facilitate the start-up of a number of mining projects, for potential investments of close to \$200 million, particularly in Québec's resource-rich regions.

An additional \$6 million will be awarded the ministère des Ressources naturelles from the Contingency Fund in 1998-1999.

### **1.3.2 *Extending the gas network into the regions***

Access to energy sources at competitive prices constitutes an asset for regional economic development. Over the past twenty years, the development of gas networks has bolstered the economic development of several Québec regions.

Today, although Québec's gas network is solidly established, it continues to be inaccessible to certain regions. Given the importance of natural gas for regional development, the government has decided to support projects aimed at hooking up regions which do not yet have access to natural gas.

A budget of \$8 million, i.e. \$3 million in 1998-1999 and \$5 million in 1999-2000, will be devoted to building several extensions in Québec. The investments generated by these projects are expected to total almost \$50 million.

In 1998-1999, an additional \$3 million will be awarded the ministère des Ressources naturelles from the Contingency Fund.

### ***1.3.3 Additional financial assistance for waterworks, sewer and wastewater treatment infrastructures***

In 1995, the government created two programs, with a budget of \$570 million, to provide financial assistance to the municipalities for the improvement of their waterworks, sewer and wastewater treatment infrastructures:

- RES-EAU: a financial assistance program for waterworks and sewer infrastructures;
- PADEM: a municipal wastewater treatment program.

To enable the implementation, over a 5-year period, of priority projects, a new program will be created and awarded a budget of \$180 million for waterworks, sewer and wastewater treatment infrastructure projects.

Eligibility criteria and management guidelines will be based on those of the RES-EAU and PADEM programs. These parameters will be announced by the Minister of Municipal Affairs.

In 1998-1999, an additional \$1 million will be granted the ministère des Affaires municipales from the Contingency Fund.

### ***1.3.4 Additional financial assistance for the management of private forests***

Since 1995, private forest summit partners, i.e. forest producers, the forest industry, the municipalities and the Québec government, have pooled their efforts to make headway in the development of private forests.

The contribution of the ministère des Ressources naturelles (MRN) to the activities of regional private forest development agencies, created under the *Forest Act*, is an annual \$29.5 million. Forest producers and the forest industry also contribute to funding these regional agencies. The municipalities assume responsibility for protection of the forest environment.

Since the management of private forests impacts heavily on the economic development of rural communities, the MRN's contribution will be upped by an annual \$5 million for five years, for a total of \$34.5 million per year. In 1998-1999, an additional \$5 million will be granted the MRN from the Contingency Fund.

### ***1.3.5 Agri-food Exports Development Fund***

At the Québec agriculture and agri-food conference, decision-makers agreed that exports constitute a major growth pole for the agriculture and agri-food sector.

To attain the objective of doubling the sector's exports by the year 2005, they decided to contribute, as partners and under a shared-cost formula, to the implementation of an agri-food exports development fund. In this regard, the government has agreed to disburse \$4 million, over the next two years, in seed money. The terms governing the partners' contributions will be defined at a later date.

#### **Eligible activities**

The fund will finance export market development activities such as:

- promoting and positioning Québec internationally as a reliable supplier of top-quality agri-food products;
- positioning and promoting the products of Québec's agri-food products and firms on export markets at international trade shows and exhibitions abroad, trade missions and missions hosting foreign buyers;
- acquiring, maintaining and disseminating marketing and trade know-how on export markets;
- implementing export development services adapted to specific target market conditions; and
- promoting an export culture within Québec's farm and agri-food sector.

The fund's management will be entrusted to the ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ). Operating procedures will be defined to ensure genuine partnership, within the spirit of the decision-makers' consensus.

For this purpose, MAPAQ will have a budget of \$2 million in 1998-1999 and \$2 million in 1999-2000. In 1998-1999, this sum will come from the Contingency Fund.

### **1.3.6 *Financing agriculture/agri-food sector research***

In partnership with the various agriculture/agri-food sector partners, the Québec government supports the implementation of a joint funding mechanism for research projects of common interest and for technology transfers.

This measure is designed to increase private-sector involvement in planning, conducting and funding research related to agriculture and food processing, using existing tools and working with government or university teams.

#### **Eligibility**

Private businesses, legally constituted associations and universities are eligible. All projects presented must involve at least one private organization, and the head office or at least one production facility of the business or association must be located in Québec.

#### **Financial assistance**

Government assistance is limited to \$150 000 per project. The private organization must cover at least 40% of the eligible expenses, be it the applicant or a partner.

Program administration will be entrusted to the Conseil de recherches en pêche et en agroalimentaire du Québec (CORPAQ), which comprises representatives from governments, industry and the university community. CORPAQ reports to the ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ).

In this regard, \$1 million will be awarded to MAPAQ in 1998-1999 and \$1 million in 1999-2000. For 1998-1999, the necessary funds will come from the Contingency Fund.

### **1.3.7 Support for the development of traditional farm products**

At the Québec agriculture and agri-food conference, the Québec government also made a commitment to support the development of traditional Québec farm products. The total assistance slated for this purpose is \$750 000 over two years.

This measure is designed to provide financial assistance in the product research, product development, manufacture and marketing phases to promoters who develop local and regional agri-food and agri-forest products.

This assistance complements the rural community development measure announced in the 1997-1998 Budget Speech.

This measure will be administered by the ministère des Régions, in conjunction with Solidarité rurale du Québec and the ministère de l'Agriculture, des Pêcheries et de l'Alimentation.

In this regard, the ministère des Régions will be allocated \$250 000 in 1998-1999 and \$500 000 in 1999-2000. The appropriations for 1998-1999 will come from the Contingency Fund.

### **1.3.8 Improvements to the Agro-environmental Investment Assistance Program**

In the wake of the Québec agriculture and agri-food conference, the Québec government has decided to broaden the scope and increase the budget of the Agro-environmental Investment Assistance Program. This program is designed to enable agricultural enterprises to make the investments needed to comply with the *Regulation respecting the reduction of farm pollution*.

#### **Improvements**

- The overall assistance awarded under this program will be increased to \$400 million, up \$81 million from the initial envelope announced in the 1997-1998 Budget Speech.
- The financial assistance available per storage facility is increased by \$5 000.
- A nonpoint source pollution reduction component is added to the Agro-environmental Investment Assistance Program.
- The financial assistance for capital investments will be spread over two years instead of nine.

- The Agro-environmental Investment Assistance Program and the related timetable are extended one year, i.e. until March 31, 2003.

TABLE 2.1

**AGRO-ENVIRONMENTAL INVESTMENT ASSISTANCE PROGRAM  
IMPACT ON GOVERNMENT EXPENDITURE**

(in millions of dollars)

Component	1998-1999	1999-2000	Total cost*	Investments generated*
Storage facilities	21.1	29.0	291.6	404.0
Manure processing	1.5	1.8	32.7	47.0
Professional services	2.3	3.1	45.5	107.0
Equipment	1.0	2.0	16.2	33.0
Nonpoint source pollution	—	—	14.0	28.0
Total	25.9	35.9	400.0	619.0
1997-1998 Budget	21.9	27.9	318.8	522.0
Improvements to the program	4.0	8.0	81.2	97.0

\* Costs to the government and investments by agricultural enterprises related to this program since its implementation in 1997-1998.

To reflect modifications to the program, \$4 million will be awarded the ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ) in 1998-1999 and \$8 million in 1999-2000. In 1998-1999, these funds will be taken from the Contingency Fund.

### ***1.3.9 Creation of an agro-environmental research and development institute***

Resource and environmental protection are key concerns in the development of Québec's agriculture/agrifood sector. The challenge consists in ensuring that businesses in this sector are competitive and able to increase their output and exports while complying with the imperatives of producing healthy, nutritional foods, safeguarding the environment, practicing resource conservation, and occupying the territory in harmony with other uses.

The Institut de recherche et de développement en agroenvironnement will, consequently, be created to mobilize all of Québec's research and technology transfer teams with a view to supplying the knowledge and technologies required for environmental protection and the development of agri-food systems, in a context of competitiveness and cost effectiveness.



The ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ), the ministère de l'Industrie, du Commerce, de la Science et de la Technologie (MICST), the ministère de l'Environnement et de la Faune (MEF) and the Fonds pour la formation des chercheurs et l'aide à la recherche (Fonds FCAR) will use their current resources to devote \$7.8 million over the next three years to funding this institute's activities. The Union des producteurs agricoles (UPA) has also committed itself to making a financial contribution to this project.

MAPAQ will coordinate the implementation of this measure.

### ***1.3.10 Québec City (Capital) Economy Diversification Fund***

The Québec City region must step up the process of developing and diversifying its economic base. To support it in its economic transformation efforts, the government has created the Québec Capital Economy Diversification Fund, with a budget of \$20 million over two years.

On the whole, the fund will be associated with measures whose impact on the diversification of the Québec City region's economy and on job creation is substantial. Target areas include the manufacturing sector, the service sector, cultural industries and tourism. The underlying standards will be the same as those of the Greater Montréal Development Fund with the necessary adjustments to reflect the objectives of diversifying the economy of the Québec City region.

The Minister for the Québec City Region will soon announce the fund's operating procedures. The fund will be administered by the ministère des Finances.

In 1998-1999, \$5 million will be taken from the Contingency Fund for this purpose.

### ***1.3.11 Assistance for the National Optics Institute***

The National Optics Institute (NOI) is Canada's largest centre of opto-electronics expertise. Renowned world-wide both for the quality of its staff and its expertise, NOI has made its mark with technological achievements in sectors as varied as industrial processes, the environment, transport, telecommunications, forestry, aerospace, biomedicine and security.

In its 1998-2003 action plan, NOI foresees pursuing its remarkable growth. The Institute intends to triple its revenues from contracts with the industry and sales abroad and boost its scientific staff from 150 to 250 employees. To achieve its objectives, NOI urgently needs to expand its facilities. To enable it to do so, the Québec government will provide NOI with financial assistance via the ministère de l'Industrie, du Commerce, de la Science et de la

Technologie (MICST) in 1998-1999. An amount of \$2.5 million will be awarded to the MICST in 1998-1999 from the Contingency Fund.

The 1998-1999 Budget Speech also provides for renewing the Institute's operating subsidy. In addition to the \$9 million already slated for the next three years, the MICST will award NOI further financial assistance totalling \$3 million for 1999-2000 and 2000-2001.

### ***1.3.12 Tourism promotion and development***

Québec is a choice tourism destination for international travellers. However, the success of strategies implemented to take advantage of strong growth in the tourism sector the world over is heavily dependent on public and private-sector investment.

To step up the promotion and development of Québec's tourism industry, the budget earmarked for the ministère du Tourisme will be increased by \$3 million as of fiscal 1998-1999. In 1998-1999, these amounts will be taken from the Contingency Fund.

### ***1.3.13 Agence de l'efficacité énergétique***

Energy efficiency is a preferred means for meeting the objectives of Québec's energy policy. The *Act respecting the Agence de l'efficacité énergétique*, adopted unanimously by the National Assembly in June 1997, reflects the government's intention in this regard.

In keeping with the principle of sustainable development, the mission of the Agence de l'efficacité énergétique is to promote energy efficiency in all energy sources, in all activity sectors and for the benefit of all regions of Québec.

The government will slate an additional \$4.5 million for the Agence, over three years, in order to work in partnership with the various socio-economic agents and to promote and support community initiatives, notably in the field of information, education, training and R&D.

In 1998-1999, an additional \$1.5 million will be awarded the ministère des Ressources naturelles from the Contingency Fund, for this initiative.

## **2. HELPING YOUNG PEOPLE TO SUCCEED**

### **2.1 Strengthening links between training and the workplace**

#### ***2.1.1 Financing of cooperative education***

Cooperative education comprises programs in which occupational skills are acquired through the alternation of in-school training and on-the-job training. Secondary and college-level educational institutions that adopt this approach incur additional costs.

Supplementary funds of \$5.3 million are allocated over two years to the ministère de l'Éducation (MEQ) to create a financial support program for educational institutions, targeting the maintenance and development of cooperative education programs.

The financial support includes:

- a basic annual envelope of \$20 000 for each Cegep and school board that offers cooperative education programs to at least two groups of students;
- an additional \$100 for such institutions annually, per student enrolled in a cooperative education program;
- \$10 000 for Cegeps and school boards that adapt existing programs to cooperative education activities.

This financial assistance should make it possible to surpass the objective, set at the Summit Conference on the Economy and Employment, to raise the number of students enrolled in cooperative education programs from 4 000 to 6 000.

For this purpose, the MEQ will receive a budget of \$1.9 million in 1998-1999 and \$3.4 million in 1999-2000. The appropriations for 1998-1999 will come from the Contingency Fund.

#### ***2.1.2 Fonds étudiant solidarité travail du Québec (FESTQ)***

The creation of satisfying and educational internships for students is a top priority for the government. Therefore, the Québec government and the Fonds de solidarité des travailleurs du Québec (FSTQ (FTQ)) have agreed to create the Fonds étudiant solidarité travail du Québec (FESTQ) to provide students with internships in workplaces that do not normally have the financial resources to hire students.

### **Financing of the FESTQ**

The FESTQ will receive \$20 million in interest-free loans, whose financing will be shared equally between the government and the FSTQ (FTQ).

The Québec government's share, i.e. \$10 million, will be allocated from the Contingency Fund by the Minister of State for the Economy and Finance.

The loans granted by the FSTQ (FTQ) and the government will have a three-year term and be renewed automatically, unless both parties wish to put an end to their agreement.

### **Eligible businesses**

The FESTQ will finance internships in labour organizations, cooperatives, community-sector not-for-profit organizations and small private-sector businesses with a gross annual income of less than \$2 million.

### **Eligible sectors**

To be eligible, small private-sector businesses must be active in the primary, manufacturing or tertiary growth sectors, including tourism.

### **Operation of the FESTQ and creation of internships**

The FESTQ will be managed by a board of directors, whose members will be appointed by the government and the FSTQ (FTQ).

The yield of the FESTQ will be used to finance its operating costs and create 550 internships per year beginning in 1999-2000. Some 50 internships should be created for the summer of 1998 through a pilot project.

### **Implementation of the FESTQ**

The Deputy Prime Minister and Minister of State for the Economy and Finance and the FSTQ (FTQ) will announce the details of operation of the FESTQ in the near future.

## ***2.1.3 Financial assistance for the development of short training programs***

Businesses in certain very rapidly developing sectors have special manpower training needs. This is the case notably of businesses active in fields related to multimedia and the use of new information and communications technology. Businesses that wish to invest massively in emerging sectors may also have similar needs.

A budget of \$4 million will be allocated to the ministère de l'Éducation (MEQ) over two years to provide financial assistance to colleges and universities that develop new ways of rapidly responding to the training needs of businesses which are active in sectors that have difficulty recruiting qualified workers.

The measure introduced by the MEQ for this purpose will have two parts.

### **Establishing links between existing training programs to facilitate career shifts**

The programs targeted will allow people who already have a college or university diploma to develop new professional skills, and will lead to:

- an undergraduate or graduate degree in developing sectors, for people who already have a university education;
- a Diploma of College Studies (DCS), with courses concentrated over periods of 12 to 16 months, for people who have obtained at least a pre-university DCS.

### **Development of short training programs**

These programs are designed to meet the urgent training needs of businesses. Projects must be submitted by a college or university in collaboration with a business or group of businesses.

Under both parts of this measure, financial assistance will be granted to projects that have been approved by the steering committee set up by the follow-up committee of the Summit Conference on the Economy and Employment and presided over by the Minister of Education.

The maximum financial assistance will be:

- \$20 000 per program, regardless of whether the objective is to forge links between existing programs or develop short training programs;
- \$10 000 for the promotion of each new program.

The MEQ will monitor this measure and evaluate its results on the basis of the following criteria:

- the number of programs developed (links, short training programs);
- the number of students who take the programs;
- the number of students who graduate from the programs;
- the number and nature of the businesses involved in each project.

The MEQ will be allocated a budget of \$1.3 million in 1998-1999 and \$2.7 million in 1999-2000. The appropriations for 1998-1999 will come from the Contingency Fund.

### ***2.1.4 Development of doctoral programs in partnership with industry***

Manpower recruitment problems in rapidly growing, new technology sectors are most acute with regard to jobs that require a very high level of training. Despite a substantial increase in the number of graduates in recent years, Québec still lags behind, particularly at the doctoral level.

The Fonds pour la formation des chercheurs et l'aide à la recherche (Fonds FCAR) is mandated to develop a doctoral-level excellence fellowship program in priority sectors in partnership with industry.

#### **Eligibility requirements**

Under the program, fellowship recipients will be required to focus their doctoral research on areas that are of interest to the partner industry in which they will do, as far as possible, part of their work.

#### **Fellowship characteristics**

Fellowships will be awarded for a three-year period and amount to \$15 000 per year. One hundred new fellowships will be granted annually.

#### **Program financing**

Under the program, 60% of fellowship financing will be provided by the ministère de l'Éducation (MEQ) and 40% by industry. For this purpose, the MEQ will receive a budget of \$900 000 in 1998-1999 and \$1.8 million in 1999-2000. The appropriations for 1998-1999 will come from the Contingency Fund.

### ***2.1.5 Program to assist unemployed engineers to shift careers to the information technologies***

Strong growth in new information and communications technology since the beginning of the decade has led to growing manpower needs. However, many of the jobs available in this sector cannot be filled on account of a lack of qualified workers. At the same time, some 2 000 engineers, most of whom are young people under age 35, are currently unemployed and likely to benefit from a career shift program.

To respond to this two-fold problem, a career shift program will be set up for unemployed engineers. Sponsored by the Centre de recherche informatique de Montréal (CRIM) and the Ordre des ingénieurs du Québec (OIQ), this program will make it possible to train 100 engineers per year in the information and communications technology sector, notably in telecommunications and data processing. Training will last one year and include a six-month internship. Program participants will have to agree to work for two years after the end of the program for the business in which they do their training.

Businesses that hire program candidates may be eligible for financial assistance under the Science and Technology Skills Improvement Program.

To make it possible to set up the career shift program, the Québec government will also cover the cost of evaluating personal skills, developing training programs and managing this initiative. To this end, appropriations of \$500 000 will be allocated from the Contingency Fund to the ministère de l'Industrie, du Commerce, de la Science et de la Technologie.

### **2.1.6 International Telecommunications Training Centre (ITTC)**

To meet technical skills upgrading and ongoing training needs in the telecommunications sector, the Institut national de la recherche scientifique (INRS) and the École de technologie supérieure (ETS) have proposed the creation of an international telecommunications training centre in Québec.

The International Telecommunications Training Centre (ITTC) will consist of a consortium of telecommunications and training firms, public training institutions, including the ETS and the INRS, and the Québec government. It will strive notably to act as a one-stop service centre for businesses with training needs in telecommunications, to define specific training needs and to meet such needs through a process based on the contracting-out of the resources of many partners.

The ITTC is expected to begin operations in the summer of 1998. The Québec government already expressed support for the project in the 1997-1998 Budget Speech. To provide concrete assistance for the creation of the ITTC, appropriations of \$800 000 will be allocated from the Contingency Fund to the ministère de l'Industrie, du Commerce, de la Science et de la Technologie in 1998-1999.

## **2.2 Supporting job creation for young people**

### **2.2.1 *Enhancement of the Science and Technology Skills Improvement Program***

The objective of the Forma-stage part of the program is to encourage workers to rapidly adapt their skills to the needs of businesses in certain high-technology sectors that are faced with recruiting problems. To be eligible, candidates must have a college or university diploma, and must have an employment link, throughout their training, with the business that hires them.

Assistance under the program takes the form of a subsidy equal to 40% of certain training costs, including the candidate's wages. The assistance can total \$12 000 per candidate.

The following changes are made to the Forma-stage part of the program:

- it is extended to March 31, 2003;
- technical adjustments are made to certain parameters of the program;
- the budget initially provided for the next two years is more than doubled, notably to satisfy increased demand.

#### **Extension of the Forma-stage part of the program**

Most of the applications submitted so far under the program to the ministère de l'Industrie, du Commerce, de la Science et de la Technologie (MICST) provide for the hiring of candidates over long periods. In view of the needs expressed by businesses, the Forma-stage part of the Science and Technology Skills Improvement Program is extended for three years, to March 31, 2003.

#### **Technical adjustments to certain parameters of the program**

- **Elimination of the requirement that businesses must be part of a group to be eligible for the Forma-stage part of the program**

In accordance with the present rules, a business that is not part of a group may obtain financial assistance only if it can submit a training plan for a minimum of 50 candidates. In some cases, this requirement has limited the access of small and medium-sized businesses to the program.



To eliminate this constraint for small and medium-sized businesses, the requirement that businesses must be part of a group to be eligible for the Forma-stage part of the program is eliminated. In cases where a group is desirable, the businesses concerned will have to comply with the requirements of the MICST. The eligibility of a business will depend notably on the number of candidates it wishes to hire under the program, taking its size into account.

TABLE 2.2

**FORMA-STAGE PART OF THE PROGRAM  
ELIGIBILITY CRITERIA FOR BUSINESSES**

Size of business <sup>1</sup>	Number of candidates required
Fewer than 5 employees	Not eligible
From 5 to 49 employees	5 candidates
From 50 to 749 employees	10% of total employees
750 employees or more	75 candidates

1 When it submits an application to the MICST.

- **Broadening of eligible training expenditures**

At present, research internships are not considered eligible training expenditures under the Forma-stage part of the program.

The definition of on-the-job training is modified to include internships and apprenticeships conducted in public research centres by candidates who have an undergraduate diploma.

Candidates who participate in this on-the-job training will not be required to take theoretical training to entitle the businesses that hire them to financial assistance under the program. In this particular case, the rule relating to the minimum number of candidates does not apply.

- **Provisions with regard to theoretical training lasting six months or more**

At present, the training plans submitted by businesses must include a theoretical training period lasting at least one month. Over this period, candidates are remunerated by the business even though they do not participate in the production process.

In some areas, the obligation to offer longer theoretical training substantially increases the costs of a business. From now on, assistance of up to \$15 000 may be awarded if a candidate's theoretical training lasts six months. In addition, businesses may receive an additional amount of up to \$3 000, i.e. \$1 000 per month over three months, in respect of such candidates for each month of theoretical training over and above the six-month period. The rule of 40% will continue to apply.

### **Application date**

The changes to the technical characteristics of the Forma-stage part of the program will apply beginning on June 1, 1998. The other changes will come into effect on the day after the day of the Budget Speech.

### **Increase in the present budget envelope**

A budget of \$30 million was initially allocated over three years to the Forma-stage part of the program for 1 500 candidates in the information technology, biotechnology and aerospace sectors.

Considering the needs to be met with regard to the adaptation of workers' skills to the requirements of the labour market, the budget envelope for this part of the program is increased by \$20.8 million over the next two years, thus doubling the funds devoted over this period to skills upgrading under the program.

This measure will make it possible to hire 2 000 more candidates over the next two years.

For this purpose, the MICST will receive a budget envelope of \$10.3 million in 1998-1999 and \$10.5 million in 1999-2000. The appropriations for 1998-1999 will come from the Contingency Fund.

## ***2.2.2 Creation of summer jobs and internships for students in the public service***

In the 1997-1998 Budget Speech, the government allocated \$10.8 million over three years for the creation of summer jobs in the Québec public service. As a result, some 2 800 students were hired in departments and agencies in the summer of 1997, 1 500 more than the previous year.

To enable the public service to offer more positions and internships to students, the government will allocate \$4.5 million for new internships and summer jobs in 1998-1999.

Departments and agencies will be able to take on 1 160 additional students, i.e. 600 as employees in the summer of 1998 and 560 as interns in the fall and winter of 1998-1999.

For this purpose, a budget envelope of \$4.5 million will be allocated to the ministère de l'Industrie, du Commerce, de la Science et de la Technologie in 1998-1999. The appropriations required in 1998-1999 will come from the Contingency Fund.

### **2.2.3 Québec-World internships**

Jobs created in the context of economic globalization require new skills, such as a knowledge of foreign languages, versatility and adaptability. Working abroad provides an excellent opportunity for acquiring such skills.

To promote overseas internships for young people, a new program will enable firms that do business in Québec and have operations abroad to obtain subsidies for hiring interns in their foreign subsidiaries.

Appropriations of \$3.4 million will be allocated to this measure over the next two years for the creation of 125 overseas internships in 1998-1999 and 200 in 1999-2000.

The ministère de l'Industrie, du Commerce, de la Science et de la Technologie (MICST) will be responsible for managing and promoting the program.

#### **Eligible businesses**

Corporations that do business in Québec and have operations or subsidiaries abroad will be eligible for assistance under the program.

#### **Nature of internships**

Internships will last a minimum of six months and a maximum of two years and take place where the business has operations abroad or in a one of its foreign subsidiaries.

A hiring contract will be concluded between the business and the intern, specifying the location and duration of the internship and the wages paid.

#### **Eligible candidates**

To be eligible for the internships, young people must have held a technical college or university diploma for at least two years.

Internships are open to a person already working for a business, provided he satisfies the eligibility criteria and is replaced by a new employee while he is abroad.

Young people may register for the program at the placement office of their educational institution and, eventually, on the Web site created for this purpose.

### **Eligible expenditures**

Eligible expenditures will include:

- the wages paid to the intern, up to \$800 per week, adjusted, if necessary, on the basis of a cost-of-living index, depending on where the internship takes place. The index in effect at the Québec government for employees posted abroad will be used for this purpose;
- the intern's travelling expenses, i.e. the cost of a return plane ticket to the foreign destination, once every 12 months.

### **Business subsidies**

Businesses will receive a subsidy equal to 40% of eligible expenditures and 100% of the intern's travelling expenses.

The subsidy for travelling expenses will be payable on presentation of proof of purchase for the plane ticket. The wage subsidy will be paid twice a year, according to the conditions specified in the intern's hiring contract.

For this purpose, the MICST will be allocated \$1.3 million in 1998-1999 and \$2.1 million in 1999-2000. The appropriations for 1998-1999 will come from the Contingency Fund.

## ***2.2.4 Employability Development Program for New Graduates***

The government will set up a program to develop the employability of new graduates. This program, which will come under the responsibility of the Minister for Administration and the Public Service, will offer new graduates internships in departments and agencies of the Québec public service.

Appropriations of \$4.3 million will be allocated annually to this program over the next four years. The appropriations for 1998-1999 will come from the Contingency Fund.

## ***2.2.5 Broadening of the Impact-PME Program***

The innovation and export-market development parts of the Impact-PME Program are major tools for supporting the creation of quality jobs for young people, promoting the dissemination of new technologies and management practices, helping small and medium-sized businesses make the transition to a knowledge-based economy and fostering export-based business development. In principle, these measures should end on March 31, 1999.

Owing to their importance to businesses and young graduates, these measures will be extended until March 31, 2000, and the terms of assistance will be improved.

### **Improvement of the innovation and export-market development parts of the program**

At present, a subsidy equal to 50% of the wages of an eligible employee, up to \$15 000, is granted for a period of 12 consecutive months.

Beginning on April 1, 1998, the subsidy will be equal to 50% of the eligible employee's wages for the first year and 25% of his wages for the second year, for a maximum subsidy of \$15 000 and \$7 500 respectively.

### **Innovation**

The budget allocated to the innovation part of the program (strategic employment for supporting innovation) will be increased to \$900 000 in 1998-1999 and amount to \$12 million in 1999-2000. A total of 1 100 strategic jobs will be created.

### **Export-market development**

The budget provided for 1998-1999, i.e. \$400 000, will be increased to \$3.3 million and that for 1999-2000 will reach \$6 million. Over this two-year period, 400 new international marketing specialists will be hired by small and medium-sized businesses.

Over the next two years, the ministère de l'Industrie, du Commerce, de la Science et de la Technologie will devote \$21.8 million to creating 1 500 strategic jobs in small and medium-sized businesses, i.e. \$3.8 million in 1998-1999 and \$18.0 million in 1999-2000. The appropriations for 1998-1999 will come from the Contingency Fund.

## ***2.2.6 Plan to improve tourism supply in natural environments***

The Société des établissements de plein air du Québec (SEPAQ) manages recreational and tourist establishments in most Québec regions. However, to improve Québec's tourism supply, various measures will have to be taken with regard to these establishments.

SEPAQ will implement an improvement plan which, while consolidating the tourism supply in natural environments, will help to create jobs, particularly for young people throughout the regions.

This two-year improvement plan consists of three parts.

### **Development of wildlife habitats and land**

This part of the program involves the rehabilitation of certain wildlife heritage components, the development of land belonging to certain establishments and the designing of new tourism products.

### **Consolidation and development of accommodations**

The objective of this part of the program is to increase the quantity and quality of accommodation facilities, notably in establishments located in wildlife habitats.

### **Training and integration sessions in areas targeted by outfitting operations**

This part of the program provides for the development of a specific training program relating to the activities and services offered in establishments located in wildlife habitats. A journeyman system is being contemplated for providing the training. Guides and facilitators for certain specific activities will also be trained.

An envelope of \$7.1 million will be allocated to SEPAQ over two years for this project, estimated at \$8.4 million.

During the project, a total of 150 jobs will be created for young people with various levels of training.

To this end, the ministère des Régions will be granted a budget of \$3.9 million in 1998-1999 and \$3.2 million in 1999-2000. The appropriations for 1998-1999 will come from the Contingency Fund.

## **2.3 Helping young people in difficulty**

### **2.3.1 Substance abuse programs and services**

Substance abuse, which involves dependence on alcohol, drugs and psychotropic medications, entails major social costs. According to a study conducted in 1992, the direct and indirect costs of alcohol and drug abuse for Québec society amount to roughly \$2 billion per year, not to mention the many physical and mental health problems and social problems associated with substance abuse.

The ministère de la Santé et des Services sociaux (MSSS) is in the process of redefining its action priorities with regard to the organization of services and programs for substance abusers and their families. Three thrusts have been identified:

- health promotion and substance abuse prevention among at-risk clientele;
- early detection and prevention, mainly among street youth;
- consolidation of an integrated network of detoxification, rehabilitation, assistance and support, and social reintegration services.

An additional \$10 million will be allocated to the MSSS over two years to step up efforts to combat substance abuse, particularly among young people.

In 1998-1999, appropriations of \$5 million will come from the Contingency Fund.

### **2.3.2 Suicide prevention**

There has been a substantial increase in the suicide rate in Québec since the early 1990s. In 1996, 1 463 people, i.e. 1 136 men and 327 women, committed suicide in Québec. This disturbing social phenomenon affects primarily young people: suicide is the main cause of death among men aged 15 to 29.

Québec's suicide prevention strategy, *Help for Life*, was made public by the Minister of Health and Social Services on February 2.

The objective of this strategy is to mobilize the health and social services network and its partners to enable them to respond more appropriately to people grappling with this problem, curb the present increase in the suicide rate and, eventually, reduce it.

To accelerate the implementation of this strategy, \$10 million will be allocated to the ministère de la Santé et des Services sociaux over the next two years. These additional resources will facilitate the development of a range of essential services and the introduction of the necessary collaborative mechanisms, as well as indispensable training and research activities.

The strategy has already identified the school system as the ideal place for implementing training and prevention measures for young people. It also provides for the presence of school-based response teams in each region.

In 1998-1999, appropriations of \$5 million will come from the Contingency Fund.

## **2.4 Quality services for young children: subsidized educational services and day care services**

In October 1996, the Prime Minister of Québec announced major changes to family assistance through the implementation of a family policy.

The family policy has several components, including:

- an improved family allowance covering the essential needs of all dependent children of low-income parents;
- free access, since September 1997, to full-time kindergarten for all 5-year-olds, and part-time educational services, supplemented by free day care services, for 4-year-olds living in underprivileged environments;
- the introduction, over several years, of subsidized educational services and day care services for young children, starting in September 1997 for children 4 years of age.

Today, both spouses work in 70% of households. To participate in the labour market, they must have access to quality, low-cost services.

Over the past year, subsidized day care services for 4-year-olds have been so well received that the government has had to reallocate its budgets to meet the additional demand for these services on the part of parents. Needs with respect to subsidized day care spaces for children aged 4 are in the process of being met.

In accordance with the schedule for setting up subsidized day care spaces, the government will make available 23 000 spaces for 3-years-olds in existing day care centres beginning next September. With the 35 000 spaces already planned, the government will be able to make 58 000 subsidized spaces available to children aged 3 to 4.

For this purpose, appropriations of \$25 million will be allocated from the Contingency Fund to the ministère de la Famille et de l'Enfance in 1998-1999.



### **3. PROMOTING FINANCIAL SECTOR DEVELOPMENT**

#### **3.1 Development of a strategy for promoting Montréal as an international financial centre**

Montréal possesses all of the pre-requisites and many of the comparative advantages needed to develop into a finance centre of international calibre. It must use these assets and be able to develop specialized activity sectors, as have financial centres such as Geneva, Singapore and Luxemburg. However, international competition to attract financial institutions is keen. The quality of the reception a city provides and the promotion it receives are therefore decisive for success.

The Québec government will assume a clear leadership role in promoting Montréal among financial institutions wishing to set up or consolidate their operations in a North American city.

A promotion, reception and solicitation strategy to facilitate the establishment of new international financial centres (IFCs) in Montréal will also be implemented.

The strategy is two-tiered:

##### **Support for solicitation by IFCs**

The Québec government has instituted a refundable tax credit for solicitation expenditures. This measure increases the tax breaks available to IFCs and, consequently, is presented in revenue measures (Section 1, Additional Information).

##### **Development of a promotion strategy by CFI Montréal**

CFI Montréal will be mandated to devise a strategy to promote, on international markets, the establishment of new international financial centres (IFCs) or new international financial activities in Montréal. To help CFI Montréal develop this strategy, it will receive an annual subsidy from the ministère des Finances. In 1998-1999, \$100 000 will be taken from the Contingency Fund for this purpose.

### **3.2 Creation of an international training and research institute in financial mathematics and financial intermediation**

The financial environment is currently changing drastically. To remain competitive, financial firms require specialized staff, whose knowledge in key sectors must be updated constantly. They must also have access to high-calibre research to enable them to adapt their products to foreign competition and develop new types of financial products or means of distribution.

To meet training and research needs in the financial sector, an international training and research institute in financial mathematics and financial intermediation will be created. Its training mandate will include appreciation training for professionals and executives, via intensive courses or seminars, and its research component will entail developing research in strategic areas, such as risk management, financial engineering, optimization of the financial system's structure and regulatory controls, fund management and use of technology.

The government has mandated the Université du Québec à Montréal to set up this institute jointly with the other universities and organizations with recognized experience in this area.

An annual \$1.1 million will be slated for the institute's mandate. In 1998-1999, this amount will come from the Contingency Fund.

## **4. SUPPORTING CULTURE AND CULTURAL INDUSTRIES**

### **4.1 Policy on reading and books**

The Minister of Culture and Communications recently released a draft government policy on reading and books under which it intends to finance a series of measures, including:

- the implementation of a reading practices program in underprivileged areas, in conjunction with the ministère de la Famille et de l'Enfance;
- increased support for book purchases by school and public libraries;
- increased support for computerization and overall improvements to libraries; and
- the development of reading promotion and awareness activities.

Over the next three years, \$25 million will be earmarked for this purpose. The ministère de la Culture et des Communications will receive \$8 million in 1998-1999 from the Contingency Fund.

### **4.2 Québec policy on the information highway**

Information technologies are developing at a dizzying pace. Like other industrialized economies, Québec has implemented various measures in recent years to promote access to and development of the information highway. Consultations on the subject highlight the importance of rallying partners to a Québec information highway model and rapidly increasing computer literacy in the general public and in the business community.

The Minister of Culture and Communications will soon publish a Québec policy on the information highway, based on five main priorities: access, education, language and culture, the economy and employment, and improved, modernized government services to the public.

For this purpose, \$4 million will be granted the ministère de la Culture et des Communications in 1998-1999 from the Contingency Fund.

### **4.3 Creation of an interim financing program for the refundable tax credit for multimedia productions**

The refundable tax credit for multimedia productions was established in the May 9, 1996 Budget Speech. A corporation producing a multimedia title certified eligible by the Société de développement des entreprises culturelles (SODEC) may, under the rules detailed in Section 1, Additional Information, be eligible for financial assistance of up to 50% of the labour costs associated with the production of the title.

To increase the liquid assets of a corporation whose annual income tax and capital tax payable are less than the refundable tax credit for which it is eligible that year, an interim financing program will be set up for this tax credit.

It will resemble a program that was previously set up for Québec movie and television productions and will take the form of a loan guarantee granted financial institutions by SODEC. This guarantee targets minimum loans of \$10 000 and may not exceed 75% of the estimated refundable tax credit. However, the guarantee will be reduced by the amount of arrears in Québec income tax, by estimated income tax and by the estimated capital tax payable by a corporation for the title's production period or for the taxation year for which SODEC certification is valid, for corporations eligible for the new component of this tax credit.

The amount available to SODEC will be increased by \$106 500 beginning in 1998-1999 to finance this new program. In 1998-1999, these funds will come from the Contingency Fund.

### **4.4 Financial stabilization of cultural organizations**

The financial health of a great many artistic endeavours is precarious despite their cultural vitality. In fact, almost half of all of the performing arts companies subsidized by the Conseil des arts et lettres du Québec recorded a deficit last year. The financial position of our major cultural institutions is also a cause for concern.

To offset this vulnerability, the government intends to pursue its efforts to see that deficits are absorbed, the organizations stabilized and revenues are diversified by promoting partnerships with the private sector.

In order to put their finances on a healthy footing, the three main organizations, the Théâtre le Trident, the Orchestre symphonique de Québec and Les Grands Ballets Canadiens will receive a total of \$3 million from Loto-Québec in 1998-1999 and 1999-2000.

Moreover, to mitigate the vulnerability of the other organizations, a new program will be set up and granted \$1 million in 1998-1999 and 1999-2000. This program will be designed to stabilize the financial structure of organizations posting deficits and consolidate the position of organizations experiencing financial difficulties.

To this end, \$500 000 will be granted the ministère de la Culture et des Communications in 1998-1999 from the Contingency Fund.

## **4.5 Development of cultural markets**

Maintaining existing markets and developing new markets abroad is critical for the very survival of many organizations and companies in the field of culture and communications. Aware that exports require attention in the medium term, the government will roll over, for 1998-1999 and 1999-2000, the amounts granted for that purpose in 1997-1998.

These funds will be used to support network development, foreign market and target market prospecting, trade missions, development of a marketing strategy for multimedia products supported by specialized geographic antennae, and market studies designed to increase the market share of Québec productions abroad.

To this end, \$2 million will be granted the ministère de la Culture et des Communications in 1998-1999 from the Contingency Fund.

## **4.6 Additional financial assistance for the restoration and preservation of Québec's religious heritage and improvement of cultural facilities and public libraries**

Québec's religious heritage is extremely diverse and, generally, of very high quality. Places of worship such as churches, temples, synagogues, rectories and convents have shaped our cityscapes and rural communities for centuries. This rich built heritage, which reflects the various communities constituting Québec society, has been preserved through considerable government effort. A religious heritage building restoration program was created in 1995-1996 and granted a \$40-million budget, which was increased by \$10 million in 1997-1998.

Aware of the need to safeguard this particularly rich element of our cultural heritage for future generations, the government intends to pursue its efforts to restore Québec's religious heritage. Therefore, the existing program will receive another \$15 million. Restoration projects will be carried out with the Fondation du patrimoine religieux du Québec, an organization comprising representatives of the different religious backgrounds, mandated to preserve and enhance Québec's religious heritage.

The government has made considerable efforts to build cultural facilities such as libraries, museums and exhibition centres. These efforts have resulted in the development of and improvements to a Québec-wide, regional and municipal network of sites devoted to cultural activities. However, this network must be consolidated.

An envelope of \$15 million will, therefore, be reserved to meet various needs related to fixed assets, i.e. the restoration of heritage buildings, upgrading of existing cultural facilities and new projects designed to make culture more accessible to the public.

The financial assistance in question will be paid in the form of subsidies for debt service. Consequently, the budget of the ministère de la Culture et des Communications will be increased by \$200 000 in 1998-1999, taken from the Contingency Fund.

## **5. OTHER EXPENDITURE MEASURES**

### **5.1 Institut pour le développement de l'économie et de l'emploi (IDEE)**

The government's economic development strategy proposes a series of objectives designed to put the Québec economy at the forefront of job creation initiatives.

The Institut pour le développement de l'économie et de l'emploi (IDEE) will be created to monitor the economic development strategy's results indicators, defined following consultation. This institute will also be mandated to conduct research on measures to improve Québec's economic performance, and to make recommendations to the government.

The government will discuss the institute's composition, funding and exact mandate with its partners in the coming months.

The institute will be granted an initial budget of \$1 million a year in 1998-1999 and 1999-2000. For this purpose, an additional \$1 million will be allocated to the ministère des Finances in 1998-1999 from the Contingency Fund.

### **5.2 Support for the development of the aboriginal nations**

The government wishes to lend its support for improving the living conditions of the aboriginal peoples, particularly to allow them to benefit more fully from Québec's economic growth. Appropriations of \$21 million will be set aside for this purpose over the next three fiscal years to cover expenditures associated directly with economic development, in particular, the creation of investment funds, and the financing of social and community infrastructures. These will be funded via debt service; the amounts announced herein represent only a fraction of the investments pending. The details of these measures will be released by the Minister responsible for Aboriginal Affairs at a later date.

For 1998-1999, appropriations of \$5 million will be earmarked for the Secrétariat aux affaires autochtones from the Contingency Fund.

### **5.3 Articling positions at the ministère de la Justice**

The professional training offered by the Barreau du Québec must be supplemented by a period of articling in an attorney's office. To promote access to the legal profession, the Québec government has decided to continue working with the Barreau du Québec by adopting measures to make it easier for more students to article with Attorney General of Québec attorneys.

While promoting access to the legal profession, these articling positions will enable students to acquire rewarding experience.

The ministère de la Justice will receive \$500 000 in 1998-1999 and \$500 000 in 1999-2000 to cover this measure. In 1998-1999, this amount will be taken from the Contingency Fund.

## **5.4 Financial assistance for regional county municipalities and urban communities**

On October 23, 1997, the government signed an agreement on the municipalities' contribution to restoring order to public finances. This agreement, which applies to all municipalities as of January 1, 1998, is an extension of the commitments made by the municipalities at the 1996 Summit Conference on the Economy and Employment to help achieve the government's zero-deficit goal by the year 2000.

One of the provisions of this agreement entails a vast pooling of municipal activities in order to save taxpayers money.

The Québec government feels that this pooling of activities should be intensified and, consequently, intends to set up a \$1.7-million financial assistance program for regional county municipalities and urban communities that conduct studies to assess the advantages of pooling municipal activities. In the coming days, the Minister of Municipal Affairs will release the terms governing this financial assistance program.

An additional \$400 000 in 1998-1999 and \$800 000 in 1999-2000 will be allocated to the ministère des Affaires municipales, which will use the budget earmarked for it in the 1998-1999 Estimates to inject another \$500 000 in 1998-1999. Additional amounts required will come from the Contingency Fund.

## **5.5 Financial remission program for domestic help services**

The financial remission program for domestic help services in the social economy sector was implemented last year to support the development of a job creation project stemming from the Montréal Summit. The first domestic help businesses governed by this program began their activities last summer.



Experience to date shows that certain adjustments are necessary to improve program operation. The following modifications will come into effect on April 1, 1998:

- the fixed amount of assistance awarded all clients of recognized businesses will be increased from \$3 to \$4 an hour;
- the maximum variable amount awarded based on income will be reduced from \$7 to \$6 an hour;
- a supplement of will be introduced to offset the additional costs incurred by businesses operating in sparsely populated regions. The amount of this supplement will be \$2 for each hour of service rendered to clients residing in rural areas.

The \$2-an-hour supplement will be paid to businesses at least 25% of the clientele of which resides in a rural area. A specific envelope will be constituted for this purpose in the budget already allocated to the financial remission program. Its amount will be set at \$1.5 million in 1998-1999 and \$2.9 million in 1999-2000. The procedures for calculating and paying the supplement will be specified by the ministère de la Santé et des Services sociaux.

## **5.6 Provision for collecting all revenue owed to the government**

To further reduce the fiscal losses associated with the underground economy and promote a sound tax system, the budgetary provision of the ministère des Finances for collecting all revenue owing the government will be increased by \$6 million. This amount will be granted the departments and agencies for specific projects submitted for ministère des Finances and Conseil du trésor approval. In 1998-1999, it will come from the Contingency Fund.

## **5.7 Regional development councils**

The Québec government acknowledged the significant importance it accords regional development by adopting a policy of support for local and regional development last year and, to facilitate its application, creating a ministère des Régions. In so doing, the government wishes to ensure Québec's future through full-fledged regional involvement in choices that affect their development. For this purpose, an additional \$5 million a year will be earmarked to support the role and action of the regional development councils in supporting the social, economic and cultural development initiatives of Québec's regions.

Additional appropriations of \$5 million will be granted to the ministère des Régions in 1998-1999 from the Contingency Fund.

## Section 3

### FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES

#### 1998-1999 BUDGET SPEECH

(in millions of dollars)

	Financial impact for the government	
	1998-1999	1999-2000
<b>A. REVENUE MEASURES</b>		
<b>1. Corporate taxation reform</b>		
<b>Measures to streamline the fixed tax expenses of SMBs</b>		
Reduced payroll tax rate	—	– 106.0
Reduction in the sales tax on the purchases of SMBs	—	– 20.0
Sub-total	—	– 126.0
<b>Partial financing measures</b>		
Elimination of the small business deduction	—	112.0
Elimination of the refundable tax credit for losses	—	18.0
Sub-total	—	130.0
<b>Additional measures to enhance the corporate taxation system</b>		
Enhancement of the five-year tax holiday for new businesses	—	– 4.0
Enhancement of the dividend tax credit	—	—
Sub-total	—	– 4.0
<b>Sub-total</b>	—	—
<b>2. New tools for increasing investments</b>		
Improved tax assistance for mining exploration in Québec's Mid-North and Far North	– 0.5	– 0.6
<b>Sub-total</b>	<b>– 0.5</b>	<b>– 0.6</b>
<b>3. Helping young people to succeed</b>		
Extension and improvement of the refundable tax credit for on-the-job training	– 1.0	– 27.0
Non-refundable tax credit respecting interest paid on a student loan	—	– 16.0
Tax-free withdrawal of funds from an RRSP for study purposes	—	– 10.0
Eligibility of expenses incurred for part-time studies, for the purposes of the refundable tax credit for child care expenses	—	– 15.0
<b>Sub-total</b>	<b>– 1.0</b>	<b>– 68.0</b>

**FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES****1998-1999 BUDGET SPEECH (cont.)**

(in millions of dollars)

	Financial impact for the government	
	1998-1999	1999-2000
<b>4. Promoting financial sector development</b>		
Tax credit to assist portfolio management companies while young portfolio managers are being trained	- 0.7	- 2.0
<b>International financial centres (IFC)</b>		
Reduction in the work time employees must devote to the operations of an IFC	- 0.1	- 0.1
Tax credit to support IFCs during the training of young employees specializing in international financial transactions	- 0.7	- 2.0
Support for the canvassing expenses of IFCs	—	- 0.4
New eligible activities:		
– Promotion, distribution, administration and management of mutual fund units	- 0.4	- 0.5
– Back office operations pertaining to international financial transactions	- 0.6	- 0.9
Sub-total	- 1.8	- 3.9
<b>Creation of new mutual funds that are to be promoted, administered and managed in Québec</b>		
New refundable tax credit equal to 50% of canvassing expenses incurred in respect of a new fund	- 3.3	- 9.4
Five-year tax exemption in respect of income derived from the management of a new fund	- 0.4	- 1.3
Sub-total	- 3.7	- 10.7
<b>Sub-total</b>	<b>- 6.2</b>	<b>- 16.6</b>
<b>5. Supporting culture and cultural industries</b>		
Refundable tax credit for film and television productions:		
– Special effects and animation	—	- 2.0
– Foreign production services	—	- 6.0
– Transition rules for certain variety shows and magazines	—	- 6.0
Sub-total	—	- 14.0
Improved tax treatment for donations	—	- 5.0
<b>Sub-total</b>	<b>—</b>	<b>- 19.0</b>

**FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES****1998-1999 BUDGET SPEECH (cont.)**

(in millions of dollars)

	Financial impact for the government	
	1998-1999	1999-2000
<b>6. Other revenue measures</b>		
Exemption in respect of the minimum tax relating to contributions to RRSPs and RPPs	– 12.0	– 7.0
Tax exemption respecting the earthquake reserves of insurance companies	—	– 3.0
Income tax exemption of \$1 000 dollars for volunteers who assist in emergency situations	—	– 1.0
Sales tax rebate for visitors	—	– 1.0
Abolition of the specific tax and duty applicable to the first 1 500 hectolitres of alcoholic beverages sold by a small-scale producer	– 0.3	– 0.3
Increased income tax reduction for families that share a dwelling	—	– 3.0
New refundable tax credit for individuals living in northern villages	—	– 1.5
Calculation of the paid-up capital of certain financial institutions	– 5.0	– 8.0
<b>Sub-total</b>	<b>– 17.3</b>	<b>– 24.8</b>
<b>TOTAL IMPACT OF REVENUE MEASURES</b>	<b>– 25.0</b>	<b>– 129.0</b>

**FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES****1998-1999 BUDGET SPEECH (cont.)**

(in millions of dollars)

	Financial impact for the government	
	1998-1999	1999-2000
<b>B. EXPENDITURE MEASURES</b>		
<b>1. New tools for increasing investments</b>		
<b>Better promotion and financial assistance tools</b>		
Creation of Investissement-Québec	- 2.0	- 4.0
Private Investment and Job Creation Promotion Fund (PIJCPF)	- 44.0	- 75.5
Sub-total	- 46.0	- 79.5
<b>Restructuring of government investment corporations</b>		
Innovatech corporations	4.5	6.0
Innovatech Régions resources	- 0.3	- 0.7
Sub-total	4.2	5.3
<b>Further developmental investments</b>		
Support for the development of the mining industry	- 6.0	- 6.0
Extending the gas network into the regions	- 3.0	- 5.0
Additional financial assistance for waterworks, sewer and wastewater treatment infrastructures	- 1.0	- 2.7
Additional financial assistance for the management of private forests	- 5.0	- 5.0
Agri-food Exports Development Fund	- 2.0	- 2.0
Financing agriculture/agri-food sector research	- 1.0	- 1.0
Support for the development of traditional farm products	- 0.3	- 0.5
Improvements to the Agro-environmental Investment Assistance Program	- 4.0	- 8.0
Québec City (Capital) Economy Diversification Fund	- 5.0	- 10.0
Assistance for the National Optics Institute	- 2.5	- 1.0
Tourism promotion and development	- 3.0	- 2.0
Agence de l'efficacité énergétique	- 1.5	- 1.5
Sub-total	- 34.3	- 44.7
<b>Sub-total</b>	<b>- 76.1</b>	<b>- 118.9</b>
<b>2. Helping young people to succeed</b>		
<b>Strengthening links between training and the workplace</b>		
Financing of cooperative education	- 1.9	- 3.4
Fonds étudiant solidarité travail du Québec (FESTQ)	- 10.0	—
Financial assistance for the development of short training programs	- 1.3	- 2.7
Development of doctoral programs in partnership with industry	- 0.9	- 1.8
Program to assist unemployed engineers to shift careers to the information technologies	- 0.5	- 0.5
International Telecommunications Training Centre (ITTC)	- 0.8	- 2.3
Sub-total	- 15.4	- 10.7

**FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES****1998-1999 BUDGET SPEECH (cont.)**

(in millions of dollars)

	Financial impact for the government	
	1998-1999	1999-2000
<b>2. Helping young people to succeed (cont.)</b>		
<b>Supporting job creation for young people</b>		
Enhancement of the Science and Technology Skills Improvement Program	- 10.3	- 10.5
Creation of summer jobs and internships for students in the public service	- 4.5	—
Québec-World internships	- 1.3	- 2.1
Employability Development Program for New Graduates	- 4.3	- 4.3
Broadening of the Impact-PME Program	- 3.8	- 18.0
Plan to improve tourism supply in natural environments	- 3.9	- 3.2
Sub-total	- 28.1	- 38.1
<b>Helping young people in difficulty</b>		
Substance abuse programs and services	- 5.0	- 5.0
Suicide prevention	- 5.0	- 5.0
Sub-total	- 10.0	- 10.0
<b>Quality services for young children: subsidized educational services and day care services</b>	- 25.0	- 25.0
<b>Sub-total</b>	<b>- 78.5</b>	<b>- 83.8</b>
<b>3. Promoting financial sector development</b>		
Development of a strategy for promoting Montréal as an international financial centre	- 0.1	- 0.1
Creation of an international training and research institute in financial mathematics and financial intermediation	- 1.1	- 1.1
<b>Sub-total</b>	<b>- 1.2</b>	<b>- 1.2</b>
<b>4. Supporting culture and cultural industries</b>		
Policy on reading and books	- 8.0	- 8.0
Québec policy on the information highway	- 4.0	- 4.0
Creation of an interim financing program for the refundable tax credit for multimedia productions	- 0.1	- 0.1
Financial stabilization of cultural organizations	- 0.5	- 0.5
Development of cultural markets	- 2.0	- 2.0
Restoration and preservation of Québec's religious heritage and improvement of cultural facilities and public libraries	- 0.2	- 0.8
<b>Sub-total</b>	<b>- 14.8</b>	<b>- 15.4</b>

**FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES****1998-1999 BUDGET SPEECH (cont.)**

(in millions of dollars)

	Financial impact for the government	
	1998-1999	1999-2000
<b>5. Other expenditure measures</b>		
Institut pour le développement de l'économie et de l'emploi (IDEE)	– 1.0	– 1.0
Support for the development of the aboriginal nations	– 5.0	– 7.0
Articling positions at the ministère de la Justice	– 0.5	– 0.5
Financial assistance for regional county municipalities and urban communities	– 0.4	– 0.8
Provision for collecting all revenue owed to the government	– 6.0	—
Regional development councils	– 5.0	– 5.0
<b>Sub-total</b>	<b>– 17.9</b>	<b>– 14.3</b>
<b>TOTAL IMPACT OF MEASURES ON EXPENDITURES</b>	<b>– 188.5</b>	<b>– 233.6</b>
<b>TOTAL IMPACT OF MEASURES ON REVENUE</b>	<b>– 25.0</b>	<b>– 129.0</b>
<b>TOTAL IMPACT OF FISCAL AND BUDGETARY MEASURES</b>	<b>– 213.5</b>	<b>– 362.6</b>

Note: A negative entry indicates a cost for the government.