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Part II

Description of tax expenditures

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1. TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX

Replacement of some tax expenditures by a flat amount

Since the 1998 taxation year, Québec taxpayers that make little use of tax expenditures can opt for the simplified tax system. Essentially, the simplified tax system replaces several deductions and non-refundable tax credits by a flat amount that is converted into non-refundable tax credit at the rate of 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002).

For 1998, the flat amount was $2 350. For years following 1998, the flat amount corresponds to the greater of the flat amount allowed in calculating the tax otherwise payable for the preceding year (indexed as of 2002) and, subject to an adjustment to the nearest multiple of $5, the amount obtained by adding $250 to the total maximum contributions of an employee to the Québec Pension Plan (QPP) and employment insurance for the year.

The following table lists the deductions and non-refundable tax credits that have been replaced by the flat amount in the order in which they are shown in this section.

TABLE 1
DEDUCTIONS AND NON-REFUNDABLE TAX CREDITS REPLACED BY THE FLAT AMOUNT

Deductions in calculating net income or taxable income
Repayment of student loans contracted under the SLPW
Lifetime $500 000 capital gains exemption on farm properties
Deduction for an artist regarding copyright income
Deduction for foreign producers
Deduction relative to certain films (except the one reducing rental income)
Deduction for a home relocation loan
Deduction for workers employed abroad
Deductions for stock options plan granted to employees
Deduction for options to purchase units of a mutual trust fund
Deduction relating to donations of securities acquired under a stock option
Deduction for allowable business investment losses
Lifetime $500 000 capital gains exemption on shares of small businesses
Tax holiday for foreign post-doctoral interns
Worker gain-sharing plan
Deduction for certain flow-through share issue expenses
Stock savings plan (SSP) deduction

Flow-through shares – basic deduction of 100%
Flow-through shares – additional deduction of 25%
Flow-through shares – additional deduction of 50%
Deduction relating to Québec Business Investment Companies (QBICs)
Additional capital gains exemption for certain properties relative to resources
Deduction relating to the Cooperative Investment Plan
Tax holiday for foreign researchers (R&D)
Tax holiday for Québec seamen
Tax exemptions for the employees of an international financial centre (IFC)
Tax holiday for foreign experts employed by a securities exchange or securities clearing-house corporation
Deduction for a member of a partnership that operates an IFC
Deduction for independent financial derivatives traders
Tax holiday for foreign specialists working in an information technology development centre
Tax holiday for foreign specialists working in the Cité du multimédia, the Centre national des nouvelles technologies de Québec or a new economy centre
Tax holiday for foreign experts working in E-Commerce Place
Tax holiday for foreign specialists working in the Montréal Foreign Trade Zone at Mirabel
Tax holiday for foreign experts
Tax holiday for foreign professors
Deductions for inhabitants of remote areas
Deduction for support amount and maintenance allowance
Deduction for employees of certain international governmental organizations
Deduction of moving expenses
Deduction of certain expenses incurred to earn investment income
Deduction of farm losses of part-time farmers
Carry-over of farm and fishing losses
Capital loss carry-over
Carry-over of losses other than capital losses
Amounts exempt from tax under a tax agreement
Non-refundable tax credits
Tax credit for dues to arts organizations
Tax credit for tuition or examination fees
Tax credit for interest paid on a student loan
Tax credit for the members of a religious community
Tax credit for medical expenses
Tax credits relating to medical care not provided in the region of residence
Tax credit for employment insurance contributions
Tax credit for contributions to the Québec Pension Plan
Tax credit for union and professional dues
Dividend tax credit
Foreign tax credit

Full indexation of the income tax system as of January 1, 2002

A mechanism for automatic indexation of the taxation system has been implemented to maintain, as of January 1, 2002, the protection against inflation afforded Québec taxpayers under the personal income tax reduction plan.

The indexing factor corresponds to the percentage change in the average Québec consumer price index (QCPI) for the 12-month period ended September 30 of the year preceding the one for which an amount is to be indexed, compared to the average QCPI for the 12-month period ended September 30 of the year prior to the year preceding the one for which an amount is to be indexed.

This indexing factor is generally applied, for a year, to the established value of indexed parameters in the previous year.

Automatic indexing applies to all three taxable income brackets in the tax table and to the various family income brackets defined in the rate table used to calculate the refundable tax credit for child care expenses.

The other parameters that are automatically indexed are shown in the table below.

TABLE 2
TAX PARAMETERS SUBJECT TO AUTOMATIC INDEXATION
(Dollars per year)

Parameter	Amount in 2001
Essential amounts for the purposes of calculating certain tax credits	
Basic amount	5 900
Amount for a person living alone	1 050
Amount for spouse	5 900
Amount respecting dependent children	
— 1st child	2 600
— 2nd and subsequent children	2 400
— single-parent family	1 300
Amount respecting children engaged in post-secondary studies	
— per term (maximum 2)	1 650
Amount respecting other dependants	2 400
Amount respecting other dependants with an infirmity	5 900
Reduction threshold for certain tax credits[1]	26 000

Parameter of certain refundable tax credits	
Refundable tax credit for medical expenses	
— maximum amount	500
— reduction threshold	17 500
QST credit	
— basic amount	154
— amount respecting a spouse	154
— amount for a person living alone	103
Tax credit for individuals living in a northern village	
— basic monthly amount	35
— monthly amount respecting a spouse	35
— monthly amount respecting dependant	15
Real estate tax refund	
— maximum allowable taxes	1 285
— taxes deducted per adult	430

1 Tax credit for persons living alone, with respect to age and for retirement income, tax reduction in respect of families, Québec sales tax (QST) credit, tax credit for individuals living in a northern village and real estate tax refund.

In general, if the result obtained by applying the indexing factor to a given parameter is not a multiple of $5, it will be rounded off to the nearest multiple of $5, or, where it is equidistant between two such multiples, rounded up the nearest multiple of $5.

However, to prevent certain parameters from being unaffected by an adjustment to the nearest multiple of $5, in the case of the following parameters, adjustment must be made to the nearest multiple of $1 or, if the result is equidistant between two multiples of $1, to the nearest higher multiple of $1:

- amount of $154 (in the case of an individual or the individual's spouse) or $103 (in the case of a person living alone), for the purpose of calculating the QST credit;

- monthly amount of $35 (in the case of an individual or the individual's spouse) or $15 (in the case of a dependant), for the purpose of calculating the tax credit for individuals living in a northern village.

The flat amount under the simplified tax system will also be set so as to protect taxpayers' purchasing power.

1.1 Tax measures ensuring fairness

– Tax credits regarding essential needs

- **For spouses (1988, was previously an exemption)**

A taxpayer who provides for his spouse is entitled to a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $5 900, that will be automatically indexed as of 2002. This amount is converted into a tax credit at rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

For the purposes of this tax credit, the expression "spouse" means a married person, a *de facto* spouse of the opposite sex and, since 1999, a same-sex *de facto* spouse.[1]

This tax credit is intended to ensure that the income devoted by taxpayers to meeting the essential needs of their spouse is not taxed, where their spouse is their dependant. It makes it possible to integrate income security transfers and taxation.

For taxation years 1998 to 2000, the tax credit for spouses is granted solely in conjunction with the general tax system. Since 2001, the tax credit for spouses may also be claimed in conjunction with the simplified tax system, if the person claiming the tax credit or the person for whom the tax credit is claimed died in the year.

Taxpayers who determine their tax payable for a year under the rules governing the simplified tax system and have a spouse at the end of such year can claim a deduction, in calculating their tax payable, equal to the amount of non-refundable tax credits their spouse does not use to eliminate their tax payable under the rules governing this system.

- **For a person living alone (1988, existed in the form of an exemption in 1987 only)**

The tax system grants a non-refundable tax credit to a person living alone or only with dependent children, calculated on the basis of an amount of recognized essential needs of $1 050 that will be automatically indexed as of 2002. This amount is converted into a tax credit at rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

[1] Since 1998, this tax credit applies to same-sex *de facto* spouses who have jointly made the election stipulated in section 144 of the *Modernization of Benefits and Obligations Act* (Statutes of Canada).

For 1996 and subsequent years, the amount of $1 050 used as a basis for calculating this tax credit has been reduced gradually according to income. In 1996, the reduction, worth a maximum of $525, was made at a rate of 7.5% for each dollar of the taxpayer's net income in excess of $26 000, so that the taxpayer received a tax credit of at least $105. In 1997, the tax credit was no longer granted to taxpayers whose net income was at least $33 000; the reduction was made at the rate of 15% for each dollar of the taxpayer's net income in excess of $26 000.

Since 1998, the $1 050 has been combined with the $1 000 for retirement income and $2 200 in respect of age and the combined amount is reduced only once. The rate of this reduction is 15% for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, that of his spouse at the end of the year, determined according to the rules governing the simplified tax system, that exceeds $26 000 (this amount is automatically indexed as of 2002).

To receive this tax credit for a year, a person must ordinarily live throughout the year or, since 2001, throughout the portion of the year preceding the time of death, in a self-contained domestic establishment maintained by the person and in which no one, other than a dependent child, lived during that year.

The tax credit for a person living alone is intended to recognize the additional needs, compared with those of a two-adult household, arising from the occupation of a dwelling or a residence by a person living alone or a single-parent family, e.g. rent, telephone expenses, electricity and other expenses that couples can share.

- **For dependent children or other dependants**

  - **For dependent children (1988, existed previously as an exemption)**

The tax system grants a non-refundable tax credit to a taxpayer with one or more dependent children, calculated on the basis of an amount of recognized essential needs of $2 600 that will be automatically indexed as of 2002, for a family’s first dependent child, regardless of the child's rank in the family. It also grants a tax credit calculated on the basis of an amount of recognized essential needs of $2 400 that will be automatically indexed as of 2002, for each of the family’s other children. The amounts of recognized essential needs are converted into a tax credit at rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

The tax credit for dependent children is intended to avoid taxing the income that a taxpayer devotes to satisfying the essential needs of his dependent children. It makes it possible to integrate transfer programs and taxation.

- **For the first child of a single-parent family (1988, existed previously as an exemption)**

The tax system grants a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $1 300 that will be automatically indexed as of 2002, in respect of the child in a single-parent family who has been designated the first child for the purpose of the application of the tax credit for dependent children. The amount of recognized essential needs is converted into a tax credit at rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

This tax credit recognizes the greater essential needs of the first dependent child in a single-parent family in relation to the needs of the first child of a couple (50% higher) and shields from taxation the income that the head of a single-parent family devotes to covering these additional expenses. The tax credit makes it possible to integrate transfer programs and taxation.

- **For other dependants (1988, existed previously as an exemption)**

The tax system grants a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $2 400 that will be automatically indexed as of 2002, to a taxpayer with a dependant 18 years old or over to whom he is related by blood ties, marriage or adoption. The amount of recognized essential needs is converted into a tax credit at rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

However, when such a person is the taxpayer's responsibility because of a mental or physical infirmity, this tax credit is replaced by a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $5 900 that will be automatically indexed as of 2002, that is converted into a tax credit at rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

These tax credits are intended to avoid taxing the income that a taxpayer devotes to satisfying the essential needs of a person 18 years of age or over who is a dependant.

- **For children engaged in post-secondary studies (1988, previously existed since 1986 in the form of an exemption)**

The tax system grants a non-refundable tax credit to a taxpayer who satisfies the needs of a child engaged in certain full-time study programs. This tax credit is calculated on the basis of an amount of recognized essential needs of $1 650 that will be automatically indexed as of 2002, for each term completed by a dependent child (maximum of two sessions per year). This amount is converted into a tax credit at rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

Until 1999, only full-time post-secondary study programs were recognized for the purpose of this tax credit. Since 2000, the tax credit also applies in respect of children engaged full-time in certain vocational training programs at the secondary level.

This tax credit is intended to provide tax relief to parents whose children are engaged in secondary vocational studies or post-secondary studies, by recognizing that such children's financial needs are essentially the same as those of an adult.

– **Tax credit relating to the flat amount of the simplified tax system (1998)**

In order to enhance the fairness of the tax system for the majority of taxpayers who benefit little from tax expenditures, a new simplified tax system was introduced in 1998. Essentially, the simplified tax system makes provision for the replacement of several deductions and non-refundable tax credits by a flat amount, transferable between spouses who calculate their tax payable under this system.

The following table indicates the main non-refundable tax credits and deductions replaced by the flat amount.

TABLE 3
MAIN NON-REFUNDABLE TAX CREDITS AND DEDUCTIONS REPLACED BY THE FLAT AMOUNT

Deductions	Non-refundable tax credits
Support amount paid	Employment insurance contributions
Moving expenses	QPP contributions
Certain expenses to earn investment income	HSF contributions
Allowable losses	Tuition or examination fees
Tax shelters	Union or professional dues
Taxable capital gains exemption	Members of a religious order
Residents of remote areas	Medical expenses
Other deductions (judicial expenses, stock option plan, foreign researchers, etc.)	Dividends

Among the deductions and non-refundable tax credits that have been replaced by the flat amount, the tax credit for employee contributions to the Québec Pension Plan (QPP) and the tax credit for employee contributions to employment insurance are, for many taxpayers, the only two tax credits they must forego to use the simplified tax system. The other deductions and non-refundable tax credits replaced by the flat amount generally affect few taxpayers.

To ensure that the vast majority of taxpayers enjoy the benefits of the simplified tax system, the flat amount was set, in the 1997-1998 Budget Speech, at $2 350, i.e. an amount $250 higher than the total maximum contributions of an employee to the QPP and employment insurance for 1997. For 1998, the flat amount, converted to a non-refundable tax credit at the rate of 23%, allowed a tax reduction of $541 per taxpayer.

For each year from 1999 to 2001, the flat amount corresponds, subject to an adjustment to the nearest multiple of $5, to the amount obtained by adding $250 to the total maximum contributions of an employee to the QPP and employment insurance for the year. The flat amount that stands at $2 430 (1999), $2 515 (2000) and $2 625 (2001), is converted into a non-refundable tax credit at the rate of 23% (1999), 22% (2000) and 20.75% (2001).

Starting in 2002, to protect taxpayers' purchasing power, the flat amount, for a year, corresponds to the greater of the following amounts, adjusted to the nearest multiple of $5:

– the amount obtained by multiplying the flat amount allowed in the calculation of tax otherwise payable for the preceding year by the indexing factor applicable for the year;

– the amount obtained by adding $250 to the total of an employee's maximum QPP contributions and maximum employment insurance contributions for the year.

The flat amount thus determined is then converted into a non-refundable tax credit at the rate of 20%.

– **Support for families and work incentive**

- **Tax reduction in respect of families (1988)**

A tax reduction, the amount of which decreases gradually beyond a certain income threshold, is granted to families with at least one child. For years prior to 1998, the maximum amount of this tax reduction, which declined at a rate of 4% (1996) and 4.7% (1997) for each dollar of total family income in excess of this threshold, was:

– $1 500, in the case of a couple;

– $1 195, in the case of a single-parent family not sharing a dwelling with another adult;

– $970, in the case of a single-parent family sharing a dwelling with another adult.

The income threshold at which the maximum amount of this tax reduction diminished gradually corresponded approximately to the zero tax threshold and depended on the family's situation and the threshold at which the family was no longer eligible for assistance under the Parental Wage Assistance (PWA) program.

Starting in 1998, the maximum amount of the tax reduction in respect of families has been reduced at the rate of 6% (1998 and 1999), 5% (2000) and 3% (as of 2001) for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, that of his spouse at the end of the year, determined according to the rules governing the simplified tax system, that exceeds $26 000 (this amount will be automatically indexed as of 2002). This maximum amount is:

- $1 500, in the case of a couple;
- $1 195, in the case of a single-parent family, whether or not it is sharing a dwelling with another adult.

This measure is intended to encourage low-income earners with dependent children to enter and remain on the labour market.

- **Family allowances (1989)**

From January 1, 1989 to September 1, 1997, when the new Québec family allowances were implemented, allowances paid by the Régie des rentes du Québec to Québec families with one or more children under 18 years of age were treated as a tax expenditure.

This universal assistance, which was paid in the form of a refundable tax credit, comprised a basic family allowance, an allowance for young children and an allowance for new-born children, the amount of which varied according to the child's rank in the family, and an allowance for disabled children.

Family allowances were intended to provide families with financial support. The adjustment of the basic family allowance according to the child's rank in the family was harmonized with assistance of last resort and the Canada Child Tax Benefit.

Since September 1, 1997, the new Québec family allowance, which has replaced, in particular, the basic family allowance, the allowance for young children and the allowance for new-born children in respect of children born or placed for adoption in a family after September 30, 1997, is no longer universal in nature. The new allowance, which is intended to cover the essential needs of the children of low-income families, is established according to family income, the number of children and the type of family, i.e. single- or two-parent.

Moreover, only allowances for new-born children in respect of children born or placed for adoption in a family prior to October 1, 1997 are being paid in the form of a refundable tax credit until 2002. The other two types of allowances paid by the Régie des rentes du Québec, i.e. the allowance for disabled children and the new Québec family allowance, are accounted for as a budgetary expenditure.

The following table indicates the amounts of the allowances payable in the form of a refundable tax credit.

TABLE 4
FAMILY ALLOWANCES PAID IN THE FORM OF A REFUNDABLE TAX CREDIT

Rank of the child	Allowances for new-born children	Monthly allowances for children: under 6 years of age		Monthly allowances for children: between 6 and 17 years of age
1st	$500	Basic family: For young children:	$10.91 $9.77 $20.68	Basic family: $10.91
2nd	$1 000, i.e. $500 at birth and $500 on the child's first birthday	Basic family: For young children:	$14.54 $19.53 $34.07	Basic family: $14.54
3rd	$8 000 (in 20 quarterly payments of $400)	Basic family: For young children:	$18.18 $48.83 $67.01	Basic family: $18.18
4th and subsequent	$8 000 (in 20 quarterly payments of $400)	Basic family: For young children:	$21.78 $48.83 $70.61	Basic family: $21.78
All ranks		For disabled children:	$119.22	For disabled children: $119.22

- **Refundable tax credit for child care expenses (1994, existed previously in the form of a deduction)**

Child care expenses paid to enable a taxpayer or another supporting person of a child (usually the taxpayer's spouse) to work or study or, since 2000, actively seek employment, may entitle the taxpayer to a refundable tax credit the rate of which is established according to household income.

For years prior to 1998, the taxpayer's total income, essentially the taxpayer's net income and that of his spouse reduced by the amount of recognized essential needs, was used to establish the rate of this tax credit. For 1998 and 1999, the rate was established according to the amount in excess of $26 000 of the taxpayer’s family income, i.e. the taxpayer’s net income and that of his spouse calculated according to the rules applicable to the simplified tax system.

Depending on the level of household income, the rate of the tax credit applied to eligible child care expenses was determined using a table with 23 income brackets and ranged from 75% to 26.4% in 1996 and 1997 and from 75% to 26% in 1998 and 1999.

Since 2000, the applicable rate depends on the taxpayer's family income, i.e. the taxpayer's net income and that of his spouse calculated according to the rules applicable to the simplified tax system. If a taxpayer’s family income does not exceed $27 000, the applicable rate is 75%. Thereafter, the rate falls by one percentage point per $1 000 of income, as long as the taxpayer’s family income does not exceed $75 000. When the taxpayer’s family income exceeds $75 000, the rate applicable for purposes of calculating the tax credit is 26%. Each of the fifty family income brackets used to determine the rate of the tax credit will be automatically indexed as of 2002.

All expenses incurred to provide an eligible child with child care services offered by an individual, a day care centre, a boarding school or a resident camp are, subject to certain conditions, deemed to be eligible child care expenses. Since 1997, these exclusions include the reduced parental contribution set by the government in order to benefit from educational or child care services.

However, the amount of child care expenses eligible for this tax credit is subject to certain limits. On the one hand, it may not exceed the total of the following amounts:

- $5 000 (1996 to 1998), $7 000 (1999) and $10 000 (since 2000) per eligible child with a severe and prolonged mental or physical impairment;
- $5 000 (1996 to 1998) and $7 000 (since 1999) per eligible child under 7 years of age at the end of the year (other than a child with a severe and prolonged mental or physical impairment);

– $3 000 (1996 to 1998) and $4 000 (since 1999) for any other eligible child, i.e. a child under 16 years of age during the year or who is a dependent because of a mental or physical infirmity.

On the other hand, when a taxpayer is the only person to assume the cost of a child's maintenance, the amount of eligible child care expenses is limited by the taxpayer's earned income. Otherwise, the amount of the expenses is limited by the earned income of the person assuming the cost of the child's maintenance that is the lowest, unless the income in question is earned by a person suffering from certain disabilities or engaged in studies.

Essentially, for the application of this tax credit, earned income comprises employment income, scholarships and research grants, and disability benefits and, since 2000, employment insurance benefits. However, since 1996, earned income may be replaced by net income to serve as a limit on the amount of eligible child care expenses if the taxpayer or the person assuming the cost of the child's maintenance is engaged in studies.

For years prior to 1999, the person assuming the cost of the child's maintenance whose earned income is the lowest should usually request the refundable tax credit for child care expenses. Starting in 1999, the total amount of each spouse's eligible child care expenses is covered by a single tax credit that may be shared by them.

The tax credit for child care expenses is intended to recognize the work-related expenses for the parents.

- **Refundable tax credit for adoption expenses (1994)**

A taxpayer who adopts a child is entitled to a refundable tax credit equivalent to 20% (1996 to 1999), 25% (2000) and 30% (since 2001) of the eligible adoption expenses that he or his spouse pays if the adoption process is completed. However, the amount of adoption expenses eligible for this tax credit was limited to $10 000 (1996 to 1998), $15 000 (1999 and 2000) and $20 000 (since 2001). The amount of the tax credit available to a taxpayer who adopts a child could not exceed $2 000 (1996 to 1998), $3 000 (1999), $3 750 (2000) and $6 000 (since 2001).

Eligible adoption expenses include, in particular, judicial and extrajudicial costs incurred to obtain an adoption order, travel and living expenses incurred by the parents to go to the child's country of origin in order to bring the child to Québec, and amounts charged by the foreign institution having supported the child.

The refundable tax credit for adoption expenses is intended to recognize the contribution of adopting families to Québec society.

- **Refundable tax credit for the treatment of infertility (2000)**

A taxpayer who seeks certain medical treatments to become a parent is entitled to a refundable tax credit equal to 25% (2000) and 30% (since 2001) of costs associated with artificial insemination or *in vitro* fertilization paid by him or his spouse. However, the amount of the expenses that qualify for this tax credit is limited to $15 000 (2000) and $20 000 (since 2001). The amount of the tax credit available to a taxpayer who uses medical means to become a parent may not exceed $3 750 (2000) and $6 000 (since 2001).

The expenses that qualify for this tax credit include, in particular, amounts paid to a physician or a licensed private hospital and amounts paid for medication prescribed by a physician and recorded by a pharmacist.

The refundable tax credit for the treatment of infertility is designed to recognize the costs borne by infertile couples who wish to start a family.

- **Non-taxation of benefits paid under the SLPW and deduction of the repayment of student loans (1992)**

The SLPW (Subsidy and Loan Program for Workers) offers financial assistance to individuals who withdraw temporarily from the labour market in order to pursue occupational training leading to a secondary school or college diploma. The financial assistance is paid in the form of a loan guaranteed by the government and in the form of a training allowance.

The training allowance is tax exempt but, for years prior to 1998, had to be taken into consideration in the calculation of total income used to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for the QST, the tax credit for child care expenses, and the real estate tax refund.

Moreover, a taxpayer who contracts a student loan under the SLPW may deduct the full amount of the portion of this debt (principal and interest) that he repays during the year.

The non-taxation of training allowances paid under the SLPW and the deduction pertaining the repayment of student loans (principal and interest) are intended to financially support individuals who temporarily leave the labour market in order to engage in individual occupational training by reducing fluctuations in their income during and after the training.

1.2 Tax measures promoting a progressive tax system

- **Real estate tax refund (1979)**

Property taxes, i.e. municipal and school taxes paid by the owner-occupant, tenant or sub-tenant of an eligible dwelling and which are included in the rent of tenants or sub-tenants, may be subject to a refund equivalent to 40% of the portion of the total of such taxes that exceeds the following amounts, which will be automatically indexed as of 2002:

- $430 in the case of a person living alone;
- $860 in the case of a couple.

However, the amount thus calculated may not exceed 40% of the maximum amount eligible, which is set at $1 285 (which will be indexed automatically as of 2002). Moreover, the amount of the real estate tax refund is reduced gradually according to household income. For 1996 and 1997, the reduction was made at the rate of 3% for each dollar of total household income exceeding a certain threshold, which usually corresponded to the tax threshold for the taxpayer's type of household.

Since 1998, the amount of the real estate tax refund has been reduced at the rate of 3% for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, that of his spouse at the end of the year, determined according to the rules of the simplified tax system, exceeding a single threshold of $26 000 (this amount will be automatically indexed as of 2002).

The real estate tax refund makes it possible to reduce the property tax burden supported by low- and middle-income earners.

- **Retroactive lump-sum payments (1990)**

A taxpayer who receives certain lump-sum payments, part or all of which pertain to a previous year, may use a special mechanism to calculate the tax payable on these payments. The mechanism makes it possible to pay the tax in respect of these retroactive payments as if they had been received during the year to which they pertain.

To qualify for this mechanism, the retroactive payments received in a year must total at least $300 and represent a benefit paid under the *Act respecting the Québec Pension Plan*, the *Canada Pension Plan* or the federal employment insurance legislation, an employment income received pursuant to a judgement, support amount arrears or any other similar retroactive payment which, if taxed in the year it is received, would result in an undue additional tax burden.

Through this measure, taxpayers avoid paying in respect of the foregoing retroactive payments higher taxes than they would have had to pay if the payments had been received and taxed continuously during each of the years in which they were payable.

- **Refundable tax credit for the Québec sales tax (QST) (1991)**

A taxpayer may take advantage of a refundable tax credit for the QST, the calculation of which is carried out in two steps. The first step consists in determining the maximum amount of the tax credit to which the taxpayer may be entitled in light of his family situation. This amount is equivalent to the total, as the case may be, of the amounts indicated in the following table.

TABLE 5
MAXIMUM AMOUNT OF THE TAX CREDIT FOR THE QST
(in dollars)

	1996	1997**	Since 1998
- Amount for an adult	104	104	154***
- Amount for a person living alone	53	53	103***
- Amount for a dependent child*	31	21	n/a
- Amount for a single-parent family*	18	12	n/a

* Since September 1, 1997, the portion of the tax credit for the QST attributable to a child has been integrated into the scale of the new Québec family allowance.
** For 1997, an additional tax credit of up to $50 for an adult and $50 for a person living alone was paid in August 1998 to take into account changes made in the QST system.
*** The amounts of $154 and $103 will be automatically indexed as of 2002.

The second step consists in reducing, as the case may be, the maximum amount in light of total household income. For 1996 and 1997, the maximum amount was reduced at the rate of 3% for each dollar of total family income exceeding a certain threshold, which usually corresponded to the tax threshold pertaining to the taxpayer's type of household. Since 1998, this amount has been reduced at a rate of 3% for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, that of his spouse at the end of the year, determined according to the rules governing the simplified tax system, which exceeds a single threshold of $26 000 (this amount will be automatically indexed as of 2002).

Prior to 2001, to claim the tax credit for the QST, a taxpayer must not have been dependent on his parents. Since 2001, this requirement has been replaced by an income test that enables taxpayers to more easily determine whether they are entitled this tax credit and makes it accessible to more students.

The tax credit for the QST makes it possible to compensate low- and middle-income earners for the increase in their tax burden arising from, among others, the broadening in 1991 and 1992 of the consumption tax base. This tax credit is intended to alleviate the consumption tax burden that these taxpayers bear and thus ensure the progressive nature of the tax system.

- **Tax reduction in respect of individuals (1994)**

A tax reduction is granted to individuals whose tax payable is less than $10 000. This reduction is equivalent to 2% of the amount by which $10 000 exceeds tax payable net of non-refundable tax credits.

This tax reduction was designed to make the tax system more progressive by allowing a reduction in the tax paid by low- and middle-income earners. It was eliminated in 1998 following the reform of the personal tax system.

1.3 Tax measures with specific objectives

– Agriculture and fisheries

- **Cash accounting method (1972)**

Taxpayers engaged in farming or fishing may elect to include their income when it is received instead of when it is earned and to deduct their expenses when they pay the corresponding amounts instead of when their consideration is used in conjunction with the enterprise. This procedure makes it possible to defer the inclusion in income and immediately deduct prepaid expenses. In the reference fiscal framework, the income is taxable when earned and expenses are deductible during the period to which they pertain.

This measure is intended to simplify the tax returns of individuals engaged in agriculture and fishing and to increase their cash on hand.

- **Flexibility in accounting for inventory (1972)**

Farmers using the cash accounting method may diverge from it with respect to their inventories. They may add to their income a discretionary amount not exceeding the fair market value of their crop inventories at the end of the year, which must be deducted from their income the following year.

In the case of farmers whose inventories decrease from year to year, this measure is intended to allow them to avoid creating losses, which, were they carried over, would fall under the 10-year carry-over deadline and could be lost. Such tax treatment also offers the possibility of spreading a farmer's taxable income over time, bearing in mind the considerable price fluctuations for certain farm products.

- **Deferral of capital gains**

  - **Deferral of capital gains on farm properties passed on to children (1972)**

Properties sold or given to children, grandchildren or great-grandchildren usually give rise to taxable capital gains insofar as their fair market value exceeds the adjusted cost base. However, under certain circumstances, capital gains on the transfer of farm properties between generations are only subject to tax when the properties are transferred to a person who does not belong to the immediate family.

A farm property can be a share of the capital stock of a family farm corporation, an interest in a family farm partnership, or land or a depreciable property used to operate an unincorporated farm or a farm that is not operated as a partnership.

This measure is intended to foster the transmission of farm properties between the members of the same family.

  - **Deferral attributable to the 10-year reserve for capital gains on the sale to children of farm properties or shares of a farm corporation (1981)**

When the proceeds from the sale of farm properties or shares in a family farm corporation to a taxpayer's descendant are not to be fully received in the year of the sale, the taxation of a portion of the gain may be deferred until the year in which the proceeds of the sale are to be received.

However, a minimum of 10% of the gain must be included in income each year, which means that the maximum reserve is 10 years.

Income from all other properties, except the shares of a corporation operating a small enterprise that enjoy the same privilege as farm properties, must be included within a maximum of five years at the rate of 20% a year.

This measure is intended to foster the transmission of this type of property between generations through the gradual taxation of the capital gain, which may be spread over 10 years.

- **Exemption from paying quarterly instalments (1972)**

Individuals operating a farming or fishing enterprise are required to pay two-thirds of the estimated tax payable at the end of the year and the remainder on or before April 30 of the following year, contrary to other individuals earning business income, who must pay quarterly instalments.

- **Lifetime $500 000 capital gains exemption on farm properties (1986)**

A lifetime $500 000 capital gains exemption is allowed with respect to gains derived from the disposal of farm properties. Only gains that exceed the cumulative net investment losses sustained after 1987 entitle the taxpayer to the exemption.

Given the rate of inclusion in income of 50% for capital gains realized after October 17, 2000, the resulting exemption on taxable capital gains may total $250 000. The inclusion rate was 75% for capital gains realized prior to February 28, 2000 and 66 2/3% for capital gains realized after February 27, 2000 but before October 18, 2000.

This measure is intended to encourage:

– risk-taking and investment in farming enterprises and create a favourable climate to enable such enterprises to obtain capital;

– the emergence of new enterprises and help small enterprises expand, while recognizing the special position of farmers.

– **Culture**

- **Dues and donations to arts organizations (1987)**

Artists who pay dues to recognized arts organizations representing them may deduct such dues when calculating their employment or business income, as the case may be. Since 1997, the deduction of these dues has been converted into a non-refundable tax credit by converting the amount of dues at a rate of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

Moreover, donations made to recognized arts organizations entitle the taxpayer, for years prior to 2000, to a non-refundable tax credit equal to 20% (1996 and 1997) and 23% (1998 and 1999) of the amount of the donation. Since 2000, the tax credit for gifts has been calculated using two rates. For the first $2 000 taken into consideration in calculating the tax credit for gifts, the applicable rate is 22% (2000), 20.75% (2001) and 20% (as of 2002), i.e. the rate applicable to the conversion of the recognized amounts into non-refundable tax credits for the year. For an amount included in the calculation of this tax credit that exceeds $2 000, the applicable rate is 25% (2000), 24.5% (2001) and 24% (as of 2002), i.e. the maximum marginal rate applicable for the purposes of calculating personal income tax for the year.

However, the amount of the charitable donations giving rise to this tax credit could not exceed, in years prior to 1998, 20% of the donor's net income for that year. Since 1998, this limit has risen from 20% to 75% of net income and may even reach 100% of such income when the donation is linked to the recognized arts organization's mission. The amount of the donation, which may not be taken into consideration in the calculation of the tax credit because of the limit applicable according to net income, may be carried over for five years, subject to this limit each year.

The first of these measures is intended to allow artists to deduct the dues paid to associations that seek to promote the professional interests of their members, e.g. unions.

The second measure is intended to facilitate the funding of Québec arts organizations that are unable to obtain registered charity status.

- **Deduction for musicians and artists (1988)**

A musician who is employed may deduct the amounts he spends to maintain, rent or insure a musical instrument and depreciation in respect of the instrument.

Furthermore, the ministère du Revenu du Québec has adopted an administrative policy concerning performing and recording artists and film actors under which such artists are, under certain conditions, deemed to be self-employed, so that they may deduct the expenses they incur in order to earn income from artistic sources.

These measures are intended to take into account the specific situation of artists.

- **Deduction for an artist regarding copyright income (1995)**

An artist who is a member in good standing of a recognized artists' association may take advantage of a deduction that exempts from tax a portion of his income derived from copyrights in respect of which he is the first owner.

For 1996 to 2000, however, this deduction was limited to no more than $15 000 of such income and was reduced by 1.5 times all copyright income in excess of $20 000. An artist who received income from the dissemination of works of which he was the creator could take advantage of this deduction if all such income did not exceed $30 000.

Since 2001, the maximum amount of $15 000 of such income is reduced by 0.5 times all copyright income in excess of $30 000. Accordingly, an artist who receives income from the dissemination of works of which he is the creator may take advantage of this deduction if all such income does not exceed $60 000.

This deduction is designed to promote the creation of original works and the emergence of new talent.

- **Deduction for foreign producers (2001)**

Non-residents of Canada working as a producer as part of a film production recognized by the Société de développement des entreprises culturelles (SODEC), can claim a deduction in calculating their taxable income the effect of which is to make the payments received for services rendered as such non-taxable in their hands.

This deduction is designed to maintain Québec's competitive position in foreign film productions and further help attract such productions to Québec.

- **Non-taxation of gains tied to donations and other dispositions of cultural property (1977 and 1992, respectively)**

A taxpayer who disposes, in favour of certain museums, of a work of art recognized by the Canadian Cultural Property Export Review Board as being of national interest or by the Commission des biens culturels du Québec may take advantage of a tax exemption on the taxable capital gain that should normally result from this transaction. The same is true of the disposal of certain cultural property in favour of a certified archival centre or a museum accredited by the ministère de la Culture et des Communications.

This tax exemption is intended to encourage the donation of art works to museums and donations of heritage property.

- **Deduction relative to certain films (1976)**

A taxpayer who invests in a certified Canadian film production may take advantage, in respect of his income from all sources, of the capital cost allowance to which the production entitled him. This deduction totalled 30% of the cost of the film and was not subject to the half-year rule. An additional deduction making it possible to more quickly amortize the cost of the film was granted when the investor derived income from films that exceeded this basic deduction.

This harmonized federal-provincial measure, which was eliminated in respect of productions acquired after 1995, was intended to facilitate the financing of certified Canadian film productions by encouraging individuals to invest in them.

Since 1991, the Québec tax system has supported Québec film and television production by granting direct assistance to producers in the form of a refundable tax credit for Québec film and television productions. This assistance is described in section 2, "Tax Expenditures Relating to the Corporate Tax System."

- **Depreciation of works of art by a Canadian artist (1981)**

A taxpayer who carries on a business or receives property income and who acquires a work of art by a Canadian artist in order to display it at his place of business may amortize each year on a residual basis 20% of the cost of acquisition of the work of art.

This measure is intended to support the production of works of art by Canadian artists.

– **Employment**

- **Non-taxation of strike benefits (1972)**

Strike benefits paid by a union to its members are not taxable.

In a judgment handed down in 1990, the Supreme Court of Canada confirmed the non-taxable nature of strike benefits, even if the funds used to pay such compensation are collected through union dues that are subject to tax relief.

Although strike benefits are not taxable, they were, in years prior to 1998, taken into consideration to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for the QST, the tax credit for child care expenses and the real estate tax refund.

- **Non-taxation of certain non-monetary benefits relating to an employment (1972)**

The fringe benefits offered by employers to their employees are not usually taxable when it is difficult for administrative reasons to ascertain their value or when it is reasonable to consider that they benefit employers more than employees. For example, the discount granted on the purchase of goods, recreational facilities offered to all employees and the uniforms and clothing intended to protect them, are not taxed.

- **Non-taxation of certain amounts paid to a member of a board of directors or of various committees (2000)**

An individual who holds an office in a body that is a corporation, an association or an organization is not obliged to include in the calculation of his income, the amount he receives from that body in the form of an allowance for travelling expenses or a reimbursement of such expenses to enable him to attend the meetings of the board or committee on which he sits, to the extent that the amount does not exceed an reasonable amount. To benefit from this preferred tax treatment, the meeting must be held at a location at least 80 kilometres from the individual's place of residence and be linked to the territory where the non-profit organization carries out its activities, or be within the local municipal territory or the metropolitan region where the head office or main place of business of the for-profit body is located.

This measure is designed mainly to help recruit individuals to hold an office with provincial not-for-profit organizations.

- **Non-taxation of certain allowances paid to volunteer firefighters (1972 to 1997)**

For 1996, an individual who served as a volunteer firefighter was not required to include in the calculation of his employment income the allowance he received from a public administration in respect of the expenses he incurred to perform his duties, up to an overall maximum of $600.

In 1997, the non-inclusion of a maximum amount of $600 was replaced by a deduction of an equivalent amount in the calculation of employment income. To take advantage of this new deduction, an individual must not perform a firefighter's duties for over 200 hours during the year and must not receive more than $3 000 in remuneration for the performance of such duties.

This measure, which was replaced in 1998 by the measure described below, was intended to compensate the individual, who could not deduct the expenses incurred in performing his duties, for example, travel expenses.

- **Non-taxation of certain allowances paid to emergency services volunteers (1998)**

In 1998, an individual who worked for a public administration as an ambulance technician, a volunteer firefighter or an emergency volunteer worker could deduct in the calculation of his income the remuneration received for such work, up to a maximum of $1 000. If the individual was so employed by more than one employer, he was entitled to a maximum deduction of $1 000 in respect of the remuneration paid by each employer.

Since 1999, this maximum deduction of $1 000 has been replaced by the non-inclusion in the calculation of employment income of the equivalent amount of remuneration.

This measure is intended to assist rural and small communities that are often unable to afford full-time emergency teams and depend on volunteer services. It also reflects the fact that volunteers cannot deduct the expenses incurred in performing his duties, for example, travel expenses.

- **Salary deferral under an employee benefit plan (1980)**

An employer may contribute, for the benefit of his employees, to an employee benefits plan when, generally speaking, this arrangement is not designed primarily to defer the tax on the income otherwise payable to the employees. In such a case, the employees are not obliged to add to their income either the contributions thus paid to the plan or the investment income that the contributions generate, as long as they do not receive benefits from the plan.

However, the employer may not deduct the contributions that he has paid into this type of plan before they are actually paid to the employees in the form of benefits.

In the meantime, the tax on the investment income accumulated in the plan must be paid by the plan each year or, if the income is distributed, by the employer or the employee, as the case may be.

The government's tax base is maintained by making the point at which the benefits from an employee benefits plan are taxed coincide with the point at which the deduction is granted to the employer in respect of the contributions made to such a plan.

Since 1986, employee benefits plans may generally only be established to allow an employee to receive a portion of his salary in a year subsequent to the one in which he benefits from sabbatical leave. This type of plan may also be established in order to spread out the salary of a professional athlete.

- **Salary deferral because of leave (1986)**

Employees, usually those in the public sector, may defer the payment of their salary with a view to taking leave lasting at least six months (three months in the case of study leave). The amounts thus deferred are only taxable when the employees receive them, possibly at a lower tax rate. The payer may only deduct these amounts in the year in which they are paid to the employees.

- **Deduction for a home relocation loan (1985)**

An employee who obtains a taxable benefit because of an interest-free loan or a loan at a reduced interest rate granted by his employer may take advantage of a deduction in the calculation of his taxable income if the loan qualifies as a home relocation loan.

Briefly, a home relocation loan is a loan used to acquire a home and received by an individual or his spouse when the individual takes up employment in a new place in Canada, which obliges him to move from one home to another, both of them located in Canada, to settle within at least 40 kilometres of the new place of work.

This deduction, granted for a maximum of five years, is equivalent to the lesser of the value of the benefit included in the calculation of the employee's income with respect to the home relocation loan and the value of the benefit that would thus be included were the value calculated on a $25 000 interest-free loan.

This measure is intended to foster worker mobility and avoid imposing an additional tax burden on an employee who is moving in order to be close to his new place of work, bearing in mind that he may have acquired a more expensive home.

- **Deduction for workers employed abroad (1983)**

An individual residing in Québec and who performs almost all of the duties pertaining to his employment outside Canada for a period of at least 30 consecutive days may take advantage of a deduction in calculating his taxable income of up to 100% of his basic salary and allowances that do not exceed 50% of this basic salary. To take advantage of this deduction, the individual must perform his duties on behalf of a specified employer and be covered by a contract under which this employer operates abroad an enterprise related, in particular, to farming, construction, engineering or scientific or technical services.

This measure is intended to promote the hiring of Quebecers to perform work abroad and bolster the competitiveness of Québec firms operating abroad.

- **Deductions for stock options plan granted to employees (1985)**

An employee who takes advantage of a stock option plan granted by his employer must include in the calculation of his income, as a benefit, an amount equivalent to the difference between the value of the shares at the time of their acquisition and the amount paid or payable to acquire the shares and the attendant options.

When a Canadian-controlled private corporation (CCPC) grants the stock option plan to an employee, the value of this benefit must be included in the calculation of the employee's income for the year during which the shares were disposed of. In other instances, the value of the benefit must be included in the calculation of the employee's income for the year during which the shares were acquired. However, under certain conditions, the employees of listed corporations may defer, to the year during which the shares are alienated or exchanged, taxation of the value of the taxable benefit resulting from the exercise, after February 27, 2000, of the stock option, up to a single annual limit of $100 000 based on the fair market value of the securities, other than shares of a CCPC, at the time the options were granted.

Furthermore, subject to compliance with certain conditions, in particular those pertaining to the share, an employee could deduct, in calculating his taxable income, for the years 1996 to 1999, an amount equivalent to one-quarter of the value of the benefit included in the calculation of his income for the year. For 2000, this deduction was equal to one-quarter of the value of the taxable benefit had the option been exercised prior to February 28, 2000, one-third of such value had the option been exercised after February 27, 2000 and before October 18, 2000, and to half such value had the option been exercised after October 17, 2000. Since 2001, the deduction is equal to half the value of the taxable benefit included for the year.

An employee of a CCPC who alienates or exchanges a share more than two years after acquiring it may deduct, in calculating his taxable income, part of the value of the taxable benefit included in calculating his income if he does not claim, regarding such share, the deduction described in the preceding paragraph. As for alienations or exchanges that occurred prior to February 28, 2000, an amount equal to one-quarter of the value of the taxable benefit was allowable as a deduction. The amount of the deduction was increased to one-third of the value of the benefit for alienations and exchanges that occurred after February 27, 2000 and before October 18, 2000, and to one-half the value of the benefit for alienations and exchanges that occurred after October 17, 2000.

This measure is intended to encourage employees to enhance the performance and profitability of their employer's business and help companies attract and retain highly specialiazed personnel.

- **Deduction for options to purchase units of a mutual trust fund (1998)**

An employee who takes advantage of an option to purchase units of a mutual trust fund granted by his employer must include in the calculation of his income, as a benefit, an amount equivalent to the difference between the value of the units at the time of their acquisition and the amount paid or payable to acquire these units and the attendant options. The value of this benefit must be included in the calculation of the employee's income for the year during which the units were acquired.

However, under certain conditions, an employee may defer, to the year during which the units are alienated or exchanged, taxation of the value of the taxable benefit resulting from the exercise, after February 27, 2000, of the purchase option, up to a single annual limit of $100 000 based on the fair market value of the securities, other than shares of a CCPC, at the time the options were granted.

Furthermore, subject to compliance with certain conditions, an employee could deduct, in calculating his taxable income, for the years 1998 and 1999, an amount equivalent to one-quarter of the value of the benefit included in the calculation of his income for the year. For 2000, this deduction was equal to one-quarter of the value of the taxable benefit had the option been exercised prior to February 28, 2000, one-third of such value had the option been exercised after February 27, 2000 and before October 18, 2000, and to half such value had the option been exercised after October 17, 2000. Since 2001, the deduction is equal to half the value of the taxable benefit included for the year.

This measure is intended to encourage employees to enhance the performance and profitability of their employer's business and help mutual trust funds attract and retain highly specialiazed personnel.

- **Deduction relating to donations of securities acquired under a stock option (2000 to 2001)**

Employees who, after March 14, 2000 and before January 1, 2002, make a gift to a registered charity (other than a private foundation) of certain securities acquired under a stock option, may, under certain conditions, take advantage of an additional deduction in calculating their taxable income. For gifts made prior to October 18, 2000, the amount of the deduction was equal to one-third of the value of the taxable benefit resulting from exercising the option. The amount of the additional deduction was reduced to one-quarter of the taxable benefit for gifts made after October 17, 2000 and before January 1, 2002.

To give rise to preferential tax treatment, the object of the gift must be a share, a debt obligation or a right listed on a recognized Canadian or foreign stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, an interest in a related segregated fund trust or certain debt obligations.

This measure was introduced to facilitate the transfer of certain listed securities to charities to help them respond to public needs.

– **Business and investment**

- **Non-taxation of income from War Savings Certificates (1972)**

The amounts received in respect of the War Savings Certificates issued by His Majesty in right of Canada or similar certificates issued by His Majesty in right of Newfoundland prior to April 1, 1949 are not taxable.

These certificates are redeemable at a price higher than their issue price. This tax exemption ensures that the difference between the redemption price and the issue price is not deemed to be taxable interest.

For years prior to 1998, the amounts received in respect of these certificates were taken into account to determine the amount of assistance granted with regard to the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST and the real estate tax refund.

This non-taxation was originally intended to encourage taxpayers to participate in financing World War II. It is now maintained to grant the same privilege to taxpayers who have not yet redeemed these certificates.

- **Partial inclusion of capital gains (1972)**

Prior to February 28, 2000, the proportion of net capital gains to be included in the income of individuals and corporations was 75%. Further to the changes introduced during 2000, this proportion was reduced to 66 2/3% for capital gains realized between February 27, 2000 and October 18, 2000, and again reduced to 50% for capital gains realized after October 17, 2000.

The partial inclusion of capital gains is intended to recognize that the appreciation in the value of a property does not necessarily reflect the taxpayer's enrichment, bearing in mind inflation. It also results in the virtually equivalent treatment of dividend income and capital gains on shares.

- **Reduction in the inclusion rate of capital gains resulting from the donation of certain securities (2000 and 2001)**

The inclusion rate of capital gains resulting from the donation of certain securities to registered charities (other than a private foundation), provided the gifts are made after March 14, 2000 and before January 1, 2002, is reduced by half.

To give rise to preferential tax treatment, the object of the gift must be a share, a debt obligation or a right listed on a recognized Canadian or foreign stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, an interest in a related segregated fund trust or certain debt obligations.

This measure was introduced to facilitate the transfer of certain listed securities to charities to help them respond to public needs, and to grant, for gifts of eligible capital properties that have appreciated in value, tax relief comparable to that offered in the United States.

- **Reduction in the inclusion rate of capital gains resulting from the donation of property with undeniable ecological value (2000)**

The inclusion rate of capital gains resulting from the donation, after February 27, 2000, of certain property with undeniable ecological value, is reduced by half.

To give rise to preferential tax treatment, the property concerned must be land located in Québec that, in the view of the Minister of the Environment of Québec, has undeniable ecological value, or a real servitude encumbering such land. The land may also be located outside Québec in a region bordering Québec, if the gift is made after July 5, 2001.

This measure is intended to encourage taxpayers to make gifts that contribute to the protection and enhancement of Québec's ecological heritage.

- **Exemption of $1 000 in capital gains realized on the sale of personal-use property (1972)**

Personal-use property is essentially owned for the use and pleasure of the owner instead of constituting an investment, e.g. an automobile.

If the selling price of personal-use property is less than $1 000, it is not necessary to declare the capital gain realized through this sale. If the selling price exceeds this amount, the cost of the property is deemed to be at least $1 000, which will reduce the capital gain in the case where the true cost is less than $1 000.

This measure is intended to simplify the administration of the tax system concerning the disposal of personal-use property of limited value.

However, the March 14, 2000 Budget Speech changed these rules, so that the minimum value of $1 000 attributed to the adjusted cost base and to the proceeds of the alienation of personal-use property does not apply if the property was acquired after February 27, 2000 under an arrangement stipulating that the property will be part of a charitable donation.

- **Exemption of $200 in capital gains realized on currency exchange transactions (1972)**

The first $200 in net capital gains realized annually on currency exchange operations (variation in a foreign currency in relation to Canadian currency) is tax exempt. However, any net capital loss sustained on currency exchange operations and which is less than $200 is deemed nil.

This measure is intended to simplify the administration of the tax system by avoiding accounting for small gains and losses on currency exchange operations.

- **Non-taxation of capital gains on principal residence (1972)**

The capital gain realized at the time of the disposal of a principal residence is tax exempt.

This measure is intended to enable Quebecers to become homeowners and to accumulate wealth. In addition, it makes it possible to exempt from tax a significant portion of the return on household savings.

However, the granting of this exemption justifies the refusal to allow as deductions from income improvement expenses, mortgage interest, property taxes and other expenses incurred in respect of a principal residence. Moreover, the capital losses resulting from the disposal of such property do not give rise to tax relief.

- **Capital gains deferral**

  - **Taxation of capital gains when realized (1972)**

The capital gain realized by a taxpayer is only taxed when he disposes of properties whose value has increased since they were acquired.

This measure is intended to only subject to tax the gain effectively realized by a taxpayer, as opposed to imputed accumulated gain, thus avoiding having taxpayers pay tax when they have not received any money corresponding to the imputed accumulated gain.

Such a measure simplifies the tax system by avoiding having taxpayers calculate each year a gain or loss in relation to the value of their properties each year, which may fluctuate considerably from one year to the next.

However, since 1994, financial institutions must declare the gains and losses on certain securities, called "mark-to-market properties", in light of the value of such properties at the end of each year.

  - **Deferral by means of capital gains rollover provisions**

In some instances, taxpayers may defer the declaration of capital gains for the purpose of calculating tax. The general rollover provisions applicable to taxpayers may be divided into two categories.

    - **Rollover because of the acquisition of replacement property (1972)**

      - **Involuntary disposal**

The capital gain arising from the involuntary disposal of property, e.g. the proceeds from insurance received after the destruction by fire of a property, may be deferred if the funds received are used to replace the property within a prescribed time. The capital gain then becomes taxable at the time of the disposal of the replacement property.

This measure is intended to avoid having a taxpayer, whether or not he carries on a business, bear a tax burden immediately because of the involuntary disposal of a property when he would only have disposed of the property later were it not for circumstances beyond his control.

❑ **Voluntary disposal**

Generally speaking, the capital gain arising from the voluntary disposal of certain property such as land or a building by individuals carrying on a business may be deferred if the replacement property is purchased prior to the end of the first taxation year following the year in which the disposal took place, e.g. this is the case when a business moves. However, it is not generally possible to take advantage of the rollover in respect of replacement property used to produce rental income.

This measure is intended to grant some flexibility to taxpayers who carry on a business in the management of their properties.

- **Transfer to a corporation in exchange for shares (1972)**

Individuals may transfer property to a corporation and elect to transfer the capital gain or the resulting recaptured depreciation to the corporation instead of paying the tax payable the year of the sale (rollover).

This measure is intended to avoid making a taxpayer immediately bear a tax burden solely because he decides to use property in conjunction with the operation of business through a corporation instead of directly.

Since 1997, apart for certain exceptions, when the parties have effected a rollover for the transfer of property for the application of federal tax, a rollover is deemed to have taken place in respect of the transfer of this property for the application of Québec tax. Moreover, the amount that must be considered as the proceeds from the disposal for the transferor and the cost of the property for the beneficiary of the transfer, for the application of Québec tax, is deemed to be the amount considered in this respect from the standpoint of the choice of rollover exercised for the application of federal tax. Similarly, if no rollover took place in respect of the transfer of property for the application of federal tax, no rollover is possible as regards the transfer of this property for the application of Québec tax.

The latter provisions are intended to halt provincial tax avoidance transactions based on the existence of distinct rollover choices in Québec tax legislation.

► **Deferral of capital gains through transfers between spouses (1972)**

Individuals may transfer capital property to their spouse or to a spousal trust at the property's adjusted cost base instead of its fair market value (rollover). In this way, it is possible to defer the capital gain until the property is once again disposed of or until the death of the spouse who took advantage of the transfer.

Property transferred to other members of the family or to third parties (or to trusts of which they are the beneficiaries) is not subject to the same system. The assignor is usually deemed to have disposed of the property at the time of transfer and must include the resulting capital gain in his income at that time.

This exceptional provision is intended to recognize a taxpayer and his spouse as a single taxation entity, thus avoiding taxing the transfer of property within the same household. It should be noted that such a deferral of tax is not allowed for a lengthy period, since it is only permitted in respect of a transfer between two individuals of the same generation. Furthermore, when the transfer occurs *inter vivos*, special rules apply so that the income generated by the property transferred, with the occasional exception, is taxed in the hands of the transferor.

Since 1997, the rollover between spouses has not been possible when, for federal tax purposes, the transferor elects not to apply the rollover rules.

- **Deferral by means of the five-year reserve (1972)**

When the proceeds from the sale of property that is capital property are not to be received fully in the year of the sale, a portion of the realized capital gain may be deferred to the years in which the balance of the proceeds of the sale is received. However, each year, at least 20% of the gain must be included in income, which creates a reserve period of not more than five years.

This measure is intended to avoid having a taxpayer pay tax on the portion of the capital gain realized at the time of disposal of a property in respect of which he did not receive any corresponding amount of money.

Furthermore, since 1997, the maximum amount of the reserve that may be requested as a deduction in the calculation of a taxpayer's capital gain may not exceed the amount granted as a deduction in this respect at the federal level. The latter measure is intended to prevent provincial tax avoidance.

- **Deferral attributable to the 10-year reserve for capital gains on the sale to children of shares of a corporation that carries on a small business (1972)**

When the proceeds from the sale of the shares of a corporation that carries on a small business to a taxpayer's descendant are not to be fully received in the year of the sale, the taxation of a portion of the capital gain realized at the time of such a sale may be deferred until the year during which the proceeds of the sale are to be received.

However, a minimum of 10% of the gain must be included in income each year, which creates a reserve period of not more than 10 years.

For all other properties, except farm property that enjoys the same privilege as the shares of a corporation that carries on a small business, the inclusion in income must be carried out over a maximum period of five years, at the rate of 20% a year.

This measure is intended to promote the transmission of small businesses between generations.

- **Income averaging for owners of private woodlots damaged by the ice storm (1999)**

The owners of private woodlots damaged by the January 1998 ice storm may take advantage of the deferral of tax for a period not exceeding four years in respect of a portion of the income derived from the sale of timber harvested in their woodlots. The amount carried over may not exceed 40% of such income otherwise determined.

Taxation years 1999, 2000, 2001 and 2002 are covered by this measure. In respect of these taxation years, the tax relating to the amount that does not exceed 40% of the income derived from the sale by an eligible woodlot owner of wood may be carried over, at the latest, to the 2003, 2004, 2005 and 2006 taxation years, respectively.

- **Deferral using the billing-based accounting method for professionals (1983)**

For the purpose of calculating their income, certain professionals such as accountants, dentists, lawyers, physicians, veterinarians and chiropractors may elect to use the accrual basis of accounting or the billing-based accounting method.

The latter method consists in deducting the cost of work under way even if the corresponding receipts are only incorporated into income when the invoice is paid or when the amount is due. This is essentially true of goods or services that are being completed and that have not reached the stage at which the taxpayer is obliged to include an amount receivable.

This method gives rise to a tax deferral.

Prior to 1972, professionals had the possibility of calculating their income using the cash basis of accounting. The 1972 reform introduced an accounting method based on the amounts receivable with the possibility of excluding work in progress, which marked a transition between the two accounting methods. Since 1983, this choice has only been available to certain professionals, e.g. accountants, dentists, lawyers, physicians, veterinarians and chiropractors. Other professionals such as engineers and architects are subject to the general rules governing amounts receivable and inventories.

- **Rollover of small business investments (2000)**

To help small businesses gain access to the capital they may need, the March 14, 2000 Budget Speech, harmonizing with federal legislation, introduced an additional rollover that enables individuals who realized, after February 28, 2000, a capital gain upon the disposal of an investment in a small business, to defer an amount of capital gain when this amount is reinvested in another eligible small business.

Initially limited to $500 000, the cap on the amount of capital gains that may be deferred in this way was raised, in harmony with federal legislation, to $2 million on October 18, 2000.

The purpose of this measure is to provide small businesses with strong growth potential with better access to capital. For this reason, specified financial institutions, professional corporations, corporations with significant real estate holdings, and corporations with assets in excess of $50 million are not considered eligible small businesses.

- **Family trusts (1972 and 1995)**

Individuals may transfer capital property to a trust on behalf of their spouses at the property's adjusted cost base instead of its fair market value. In this way, it is possible to defer the capital gain until a new disposal of the property or until the death of the spouse who benefited from the transfer.

Harmonizing with federal legislation, new types of trusts (mixed trusts and trusts in favour of oneself) may, since January 2000, enjoy a deferral of tax similar to the one enjoyed by a spousal trust.

Property transferred to other members of the family or to a trust of which they are the beneficiaries is not subject to the same system. The assignor is usually deemed to have disposed of the property at its fair market value at the time of the transfer and must include the resulting capital gain in the calculation of his income.

In the case of property transferred to a trust, except a spousal trust, a trust in favour of oneself or a mixed trust, the capital gain is usually deemed to have been realized at the time of the transfer and according to the property's fair market value at that time. In addition, such a trust is deemed, in general, to have disposed of capital property other than depreciable property that it holds on the day that falls 21 years after the day on which it was established. Consequently, the accrued capital gain on such property is taxable on that date.

- **Deduction for losses as limited partner (1987)**

The active members of a partnership usually share the partnership's income and losses for tax purposes in proportion to each member's participation in the partnership.

However, tax rules now limit the business losses likely to be transferred to the limited (sleeping) partners of a partnership according to the at-risk amount of the partner's investment in the partnership. The at-risk amount is usually defined as the overall cost of the investment in the partnership plus the latter's undistributed income, less the total amounts due from the limited partner to the partnership and the guarantees or indemnities offered to the limited partner against the loss of his investment.

The general tax treatment of the income or losses of limited partnerships or partnerships (the "rules of conduct") means that a business loss is broken down annually, while a shareholder may not deduct the losses of the partnership in which he is a partner against his personal income. The limited partner, in the case of a limited partnership, may be compared with the shareholder in the case of a corporation. Investments in limited partnerships that were motivated by tax considerations have, however, led to the introduction of rules on the at-risk amount to prevent the tax benefit arising from an investment as a limited partner in a limited partnership exceeding the limited partner's actual investment.

- **Deduction for allowable business investment losses (1978)**

Generally speaking, it is only possible to deduct capital losses arising from the disposal of shares or bonds against capital gains.

However, when such a loss is attributable to the shares or debt instruments of a small corporate business, 50% of such a loss (75% for losses suffered before February 28, 2000 and 66 2/3% for those suffered after February 27, 2000 but before October 18, 2000) may be deducted against another type of income, such as employment income.

The portion of a loss attributable to the shares or debt instruments of a small corporate business that is not used in the year may be subject to a three-year loss carry-back or a seven-year loss carry-forward. After seven years, the loss becomes a capital loss and may be carried over indefinitely in respect of subsequent years against a capital gain.

This measure is intended to ensure the neutrality of the tax system as regards the business operations of small and medium-size enterprises. When an individual carries on a business that is not incorporated and sustains losses leading to the cessation of the operation of the business, he may deduct these losses against his other types of income.

- **Lifetime \$500 000 capital gains exemption on shares of small businesses (1985)**

The lifetime \$500 000 capital gains exemption applies, in particular, to gains derived from the disposal of the eligible shares of small businesses. The exemption is only possible if the gains exceed cumulative net investment losses sustained after 1987, and provided the \$100 000 cumulative exemption for capital gains and the cumulative exemption of \$500 000 for capital gains on eligible farm property have not been used.

Given the 50% capital gains inclusion rate in income, an exemption results up to a maximum of \$250 000 in taxable capital gains. The inclusion rate was 75% for capital gains realized before February 28, 2000 and 66 2/3% for capital gains realized after February 27, 2000 but before October 18, 2000. This exemption, which leads to a deduction in the calculation of taxable income, is intended to encourage the emergence of new businesses and to channel capital to small businesses.

– **Education**

- **Tax exemptions regarding bursaries and awards**

  - **Exemption of the first \$500 (\$3 000 in 2000) of income from a scholarship, a fellowship or a bursary or a prize for achievement (1972 to 2000)**

For years prior to 2000, a \$500 tax exemption was granted for all of the amounts that a taxpayer receives in a given year in the form of a scholarship, a fellowship or a bursary or a prize for achievement, other than a bursary or prize covered by a full tax exemption. However, this partial exemption did not apply to educational assistance payments made under a registered education savings plan, to an amount received during the course of a business or amounts received because of or in the course of an office or employment, which have their own set of inclusion rules.

In some cases, this partial exemption could exceed \$500 if the expenses the taxpayer incurred to fulfil the conditions for obtaining the bursary or the prize exceeded that amount and the bursary or prize had to be used to produce a literary, dramatic, musical or artistic work.

For 2000, the amount of the minimum exemption of \$500 was raised to \$3 000.

This measure, which is designed to encourage taxpayers to continue their studies, further their training or develop their skills, was replaced in 2001 with a measure providing full exemption of bursaries and prizes.

Non-taxation of certain bursaries to students suffering from a major functional impairment (1988)

A person engaged in studies and who suffers from a major functional impairment may receive assistance from the ministère de l'Éducation du Québec that offsets the special needs created by the impairment. This assistance, paid in the form of a bursary, is tax exempt.

This exemption seeks to treat fairly individuals suffering from a major functional impairment by exempting from tax the reimbursement of expenses relating to their impairment.

Non-taxation of certain bursaries to students from a northern village (1993)

A student from a northern village who must live away from home because the course of studies he is taking is not offered by the school in his community of origin may receive asisstance from the ministère de l'Éducation du Québec to offset his transportation costs. This assistance, paid in the form of a bursary, is tax exempt.

This exemption is intended to enable students from northern villages to benefit from the same educational services as those offered to other Quebecers.

Non-taxation of scholarships (2000)

For 2000, a taxpayer was not required to include in the calculation of his income scholarships, fellowships or bursaries as well as prizes for achievement, if he was engaged in an undergraduate degree or courses leading to a master's or a doctoral degree, except in the case of such bursaries and prizes granted under legislation governing the granting of financial assistance to post-secondary students.

This measure, which is designed to increase the financial incentive for the best students to pursue higher education, and to prepare a sufficient number of new university researchers, was broaded, beginning in 2001 to all bursaries and prizes, other than bursaries excluded from the calculation of income.

Full exemption of scholarships and prizes (2001)

Since 2001, scholarships, fellowships or bursaries and prizes for achievement have been tax-exempt, by means of a deduction in calculating taxable income, except for bursaries from the ministère de l'Éducation du Québec paid to students with a major functional impairment or students from northern villages described above, which remain excluded from the calculation of income.

However, this tax exemption does not apply to amounts received as benefits under a registered education savings plan, to amounts received in the course of a business and to amounts received because of or as a result of an office or employment.

The value of the bursaries and prizes is taken into consideration to determine the various tax credits that decrease as income rises, except for the purposes of the spousal tax credit.

This measure is designed to increase the financial incentive for students to pursue their education, and to increase the realization of remarkable achievements. By encouraging students to pursue higher education, this measure also seeks to prepare a sufficient number of new university researchers in Québec.

- **Registered education savings plan (1972)**

An individual may contribute to a registered education savings plan (RESP) on behalf of a designated beneficiary, usually his child. Contributions to the RESP are not deductible in the calculation of the subscriber’s income but are usually tax free. In 1996, the limit on the annual contribution was \$2 000 per beneficiary and the overall limit was \$42 000. Since 1997, the maximum annual contribution has been \$4 000 per beneficiary.

Prior to 1998, investment income derived from the contributions paid to an RESP could generally only be used to help the designated beneficiary engage in post-secondary education and became taxable income in the beneficiary’s hands when withdrawn from the plan. Since 1998, if the designated beneficiary of the RESP is 21 years of age and is not engaged in post-secondary study, the subscriber may withdraw from the plan the funds accumulated there. This investment income must be included in the calculation of the subscriber’s income and is subject to an additional 8% tax. However, this additional tax may be reduced or even eliminated provided that a premium eligible for deduction is paid into a registered retirement savings plan of which the subscriber or his spouse is the annuitant.

This measure is intended to encourage saving to finance post-secondary studies and to heighten interest among subscribers in this type of savings vehicle.

- **Deduction of contributions to a teacher exchange fund (1972)**

A teacher may deduct the amount that he pays into a fund that the Canadian Education Association set up for the benefit of Commonwealth teachers living in Canada pursuant to an agreement governing teacher exchanges, up to a maximum of \$250 a year.

This measure is intended to facilitate the financing of a teacher exchange fund between Commonwealth countries.

- **Tax credit for tuition or examination fees (1997, existed previously in the form of a deduction)**

For 1996, a taxpayer could deduct the tuition fees he paid in order to engage in studies. The deductible tuition fees were generally those paid to a post-secondary educational institution. Moreover, the examination fees paid to a recognized professional order could also be deducted. However, to be entitled to the deduction, the taxpayer's total tuition and examination fees in a given year had to exceed $100.

Since 1997, the deduction for tuition and examination fees is converted into a non-refundable tax credit. The eligible amount of tuition and examination fees was converted at a rate of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002). Any unused portion of this tax credit may be applied to reduce the tax payable in a subsequent year.

This measure is intended to recognize that tuition fees paid in order to obtain a diploma or occupational training and examination fees paid to a professional order are expenses incurred with a view to entering the labour market and, consequently, to earning income.

- **Tax credit for interest paid on a student loan (1998)**

Since 1998, taxpayers have been entitled to a non-refundable tax credit regarding the interest paid on student loans granted to them pursuant to the *Act respecting financial assistance for students*, the *Canada Student Loans Act* or the *Canada Student Financial Assistance Act*. The rate of this tax credit is 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002). Any unused portion of the tax credit may be applied to reduce the tax payable in a subsequent year.

This tax credit is intended to lighten the burden arising from the obligation to pay interest on a student loan.

- **Tax holiday for foreign post-doctoral interns (1998)**

A personal income tax exemption is granted to foreign post-doctoral interns, on the salary they earn during a period of not more than 60 months devoted to scientific research and experimental development (R&D) with an eligible university entity or an eligible public research centre already recognized for the purpose of the tax measures relating to R&D.

A foreign post-doctoral intern is anyone not residing in Canada immediately prior to hiring and who is recognized as a foreign post-doctoroal intern by the ministère de l'Éducation du Québec.

This measure is intended to assist the recruitment of foreign post-doctoral interns by eligible university entities and research centres that want to carry out R&D activities, thus encouraging such activities in Québec and the transfer of technology.

– **Developmental measures for the economy**

- **Worker gain-sharing plan (1993)**

Worker gain-sharing plans aimed at distributing among the employees of a company a portion of the profits or an amount established according to another performance indicator may give rise to certain tax benefits, provided that the ministère de l'Industrie, du Commerce, de la Science et de la Technologie (MICST) has attested that the enterprise has adopted a total quality process.

The benefits are indicated below.

- The employee may deduct the amounts he receives under the gain-sharing plan, up to $3 000 a year (lifetime ceiling of $6 000).
- When the employer is a small or medium-size enterprise in the manufacturing sector, the employer benefits from a 15% non-refundable tax credit on the eligible amounts paid to employees. Any unused portion of this tax credit is carried over for a period of five years.

This measure, which is intended to foster partnerships leading to enhanced productivity and in which the notion of total quality must be implicit, only applies to plans that were registered prior to January 1, 1996 and in respect of which the MICST issued a certificate.

- **Market makers (1984)**

Briefly, the contributions that a market maker working on the floor of the Montreal Exchange makes to an allowance account for contingent losses are deductible from his income, subject to certain limitations.

However, any amount withdrawn by a market maker from an allowance account for contingent losses must generally be included in his income.

This measure is intended to defer the taxation of a portion of a market maker's gains that are set aside in an allowance account in order to cover contingent losses. The objective of this measure is to increase the capital available to market makers.

- **Deduction for certain flow-through share issue expenses (1991)**

Under the general rules governing flow-through share issue expenses, e.g. brokerage, legal and accounting expenses, such expenses must be deducted in the calculation of the issuing company's income over a period of five years.

However, provided that the company waives the deduction of issue expenses incurred at this time and that the expenses pertain to shares or securities the proceeds from which will be used to cover exploration costs in Québec, an additional deduction is granted to the purchasers of flow-through shares in an amount equivalent to the lesser of the issue expenses actually incurred by the company and 15% of the proceeds of the flow-through share issue.

In the March 29, 2001 Budget Speech, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, provision is made for a transition period. Accordingly, the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

This measure is intended to help finance natural resource exploration operations in Québec.

- **Deductions relating to strategic investments**

  - **Stock savings plan (SSP) (1979)**

The SSP has three sections:

- An individual may deduct 100% of the cost of acquiring a common share, or 50% of the cost of an eligible convertible security, issued by a listed growth company with assets of less than $350 million in conjunction with a distribution of shares to the public in accordance with the rules governing the SSP.

- An individual who acquires a share issued by a regional venture capital corporation is entitled to a 150% deduction.

- Certain rules entitle an individual to a deduction for the acquisition of securities in an "SSP investment fund", based on the fund's commitment to acquire during the following year the shares of growth companies.

The amount of the deduction may not exceed 10% of the taxpayer's total income for the year.

The main objective of the SSP is to ensure better capitalization of small and medium-size Québec enterprises. It was originally intended to reduce the tax burden of high-income earners and to broaden participation by Quebecers in the stock market.

- **Flow-through shares – basic deduction of 100% of Canadian exploration expenses, Canadian development expenses and expenses incurred in respect of Canadian assets pertaining to oil and gas (1987)**

A taxpayer who acquires a flow-through share may, generally speaking, take advantage of a deduction equivalent to 100% of the cost of acquiring the share if the financing thus obtained by the issuing company is used to cover the cost of exploration or development work in respect of a mining resources, oil and gas and if the expenses thus incurred are subject to a waiver on behalf of the shareholder.

In the March 29, 2001 Budget Speech, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, provision is made for a transition period. Accordingly, the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

This measure is intended to promote the financing of mining, oil and gas enterprises in Canada.

- **Flow-through shares – additional deduction of 25% in respect of mining, oil and gas exploration expenses incurred in Québec (1987, amended in 1992 to reduce the 33 1/3% rate to 25%)**

An individual who acquires a flow-through share may, in addition to the basic 100% deduction, take advantage of an additional deduction of 25% if the expenses incurred by the issuing company from the proceeds of the flow-through share issue are mining, oil and gas exploration expenses incurred in Québec prior to January 1, 2004, subject to the 12-month period stipulated by tax legislation in respect of the execution of work and which the company has waived.

In the March 29, 2001 Budget Speech, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, provision is made for a transition period. Accordingly, the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

This measure is intended to foster the financing of mining, oil and gas exploration in Québec.

- **Flow-through shares – additional deduction of 50% in respect of surface exploration expenses incurred in Québec for mining exploration (1989) and for oil and gas exploration expenses incurred in Québec (1996)**

An individual who acquires a flow-through share may, in addition to the 100% basic deduction and the additional deduction of 25%, take advantage of a further deduction of 50%, for a total of 175%, if the expenses incurred by the issuing company from the proceeds of the flow-through share issue are surface mining exploration expenses incurred in Québec prior to January 1, 2004, subject to the 12-month period stipulated by tax legislation in respect of the execution of work and which the company has waived.

If the expenses in question are oil and gas exploration expenses incurred in Québec, an additional deduction of 50% is also allowed, for a total of 75% in additional deductions, in respect of such expenses incurred after May 9, 1996 but prior to January 1, 2004, subject to the 12-month period stipulated by tax legislation.

In the March 29, 2001 Budget Speech, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, provision is made for a transition period. Accordingly, the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

This measure is intended to recognize the higher risks inherent in surface mining exploration work and in oil and gas exploration.

- **Québec Business Investment Companies (QBICs) (1986 and 1998)**

A QBIC is a company that collects funds from individuals to invest them in small and medium-size enterprises (SMEs) operating in eligible sectors. The investment in the SME triggers the tax benefit. In the March 14, 2000 Budget Speech, the maximum investment an SME could receive was raised from $5 million to $10 million. The rate of deduction allowed shareholders of a QBIC is 150% if the SME has less than $25 million of assets and 125% if the SME’s assets lie between $25 million and $50 million. However, in this regard, a taxpayer’s deduction may not exceed 30% of his total income.

This measure is intended to promote the permanent capitalization of SMEs that have not yet reached a sufficient size to make a public share offering and facilitate the raising of the venture capital needed to ensure their growth.

Additional capital gains exemption for certain properties relative to resources (1992)

The capital gain realized by a taxpayer who disposes of a property is usually equivalent to the difference between the price obtained when the property is sold and the price paid when it was acquired.

When the property is a flow-through share, the price paid to acquire the share is deemed to be null, given that such a share usually gives rise to substantial tax deductions.

Consequently, the full amount received when such a share is sold represents a capital gain, independently of the price actually paid at the time of acquisition.

However, insofar as the owner of the flow-through share obtained the tax deductions because exploration costs were incurred in Québec, the capital gain that would be realized, up to an amount equivalent to the purchase price of the share, may be exempt.

In the March 29, 2001 Budget Speech, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, provision is made for a transition period. Accordingly, the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

This measure is intended to promote the financing, through the acquisition of flow-through shares, of mining, oil and gas exploration conducted in Québec.

Cooperative investment plan (1985)

Generally speaking, the cooperative investment plan (CIP) enables a member or an employee of a qualified cooperative to obtain a deduction in respect of the cost of acquiring a unit in the cooperative, at the following rates:

- 150% in the case of the acquisition of a unit by an employee of a small or medium-size cooperative in respect of which the ministère de l'Industrie et du Commerce has issued a certificate;

- 125% in the case of the acquisition of a unit of a small or medium-size cooperative other than under an investment program for workers;

- 125% in the case of a unit acquired by an employee of a cooperative not covered in the preceding paragraph;

- 100% in other cases.

The employees of cooperative partnerships or the subsidiaries of cooperatives may also take advantage of this deduction.

The deduction granted in conjunction with the CIP may not exceed, in a given year, 30% (10% prior to 2001) of the individual's total income. Essentially, an individual's total income corresponds to his net income determined without taking into account income replacement indemnities received under a statute, from which must be deducted the taxable capital gains exemption.

However, the unused portion of such a deduction may be carried forward for a period of five years, subject to the limit of 30% (10% prior to 2001) of total income. Rules have been adopted to ensure the permanence of the capital accumulated by means of the CIP.

This measure is intended to promote the growth of cooperatives by granting a tax benefit to members and employees who acquire the preferred units issued by eligible cooperatives, i.e. cooperatives other than financial or personal service cooperatives.

- **Tax holiday for foreign researchers (R&D) (1987, 1998 and 1999)**

A personal income tax exemption is granted to specialized foreign researchers on the salary they earn during a period of not more than 60 months devoted to research in a firm conducting scientific research or experimental development (R&D) in Québec.

A specialized foreign researcher is anyone not residing in Canada immediately prior to hiring and who is recognized as a specialized researcher by the ministère de la Recherche, de la Science et de la Technologie.

This measure is intended to facilitate the recruiting of specialized foreign researchers by companies wishing to carry out R&D, thereby encouraging the pursuit of these activities in Québec, and technology transfers.

- **Tax holiday for Québec seamen (1996)**

With respect to the remuneration that he receives after August 31, 1996, a seaman holding an eligibility certificate issued by the ministère des Transports (MTQ) and performing his duties on a ship operated by an eligible shipowner and engaged in the international transportation of goods may deduct in the calculation of his taxable income an amount equivalent to 100% of the remuneration received from this shipowner for the period during which the seaman worked on such a ship. This period must be at least 10 consecutive days (30 consecutive days for assignment periods ending after March 14, 2000). The shipowner must be covered by an eligibility certificate issued by the MTQ. In particular, the shipowner must be a person residing in Canada or a company that is a foreign subsidiary of such a person.

This measure is intended to enhance the competitiveness of Québec shipowners and encourage them to employ Québec seamen.

- **Tax exemptions for the employees of an international financial centre (IFC) (1986)**

  - **Partial income tax exemption for the employees of an IFC**

Provided that he fulfils the conditions otherwise applicable, an individual employed by a company or a partnership operating an IFC may take advantage of a partial income tax exemption. This exemption consists of a deduction in the calculation of taxable income.

In the March 29, 2001 Budget Speech, the percentage of the income of an IFC employee eligible for the partial exemption from income tax was raised from 33 1/3% to 50%.

This exemption is granted to the employees of a company or a partnership that operates an IFC in order to enable the company or the partnership to reduce the cost of IFC-related operations and thus gain a competitive edge for Montréal as a centre suited to the conduct of international transactions.

  - **Total income tax exemption for foreign specialists**

Briefly, an individual who specializes in an eligible field of international transactions and who, immediately prior to the conclusion of his employment contract or his taking up employment with a corporation or a partnership operating an IFC, does not reside in Canada may take advantage of a total income tax exemption on his income from all sources. This exemption consists of a deduction in the calculation of taxable income.

The period of exemption applicable to such specialists was extended from two to four years in the March 31, 1998 Budget Speech and from four years to five years in the March 9, 1999 Budget Speech.

This measure is intended to encourage foreign specialists to settle permanently in Montréal.

- **Tax holiday for foreign experts employed by a securities exchange or securities clearing-house corporation (2000)**

Briefly, an individual who, for a taxation year, works exclusively or almost exclusively for a securities exchange business or a securities clearing-house corporation carried on within the territory of the City of Montréal by an eligible corporation and who, immediately prior to the conclusion of his employment contract or the start of his employment as an employee of the eligible corporation, was not a resident of Canada, may take advantage of a total income tax exemption with respect to his income from all sources.

The tax holiday for foreign experts applies regarding any individual who begins employment as a foreign expert with an eligible corporation after April 26, 2000 and before January 1, 2011, and is is intended to encourage foreign specialists to settle permanently in Montréal.

- **Deduction for a member of a partnership that operates an international financial centre (1998 and 2000)**

Briefly, an international financial centre (IFC) is a business or part of a business established in Montréal all of whose activities pertain to qualified international financial transactions. The principal IFC-related tax benefits provided for in the legislation include a tax exemption and various refundable tax credits for the operator of a IFC, as well as a partial or total exemption from income tax for employees.

Initially, an IFC had to be operated by a corporation. However, to further stimulate the development of IFCs in Montréal, the Minister of Finance announced, on June 23, 1998, that it would be possible for a partnership to operate an IFC business regarding fiscal years of partnerships ending after June 23, 1998.[2]

However, in terms of income tax, the benefit granted to a member of a partnership operating an IFC varies depending on whether the member is an individual who resides in Canada or another type of taxpayer. Briefly, the exemption is 100% in the case of a member who is a corporation or a natural person who does not reside in Canada, and 30% in the case of a member who is an individual who resides in Canada.

- **Deduction for independent financial derivatives traders (2001)**

As part of the strategic repositioning of its activities, the Montréal Exchange joined an international alliance of securities markets in the fall of 2000. However, one of the requirements of this alliance is that "open-outcry" trading of financial derivatives (FD) be transferred to an electronic trading platform. In order to maintain the market's dynamism and foster liquidity of FDs listed on the Montréal Exchange during the transitional period needed to implement an electronic platform, a tax measure in support of independent traders of FDs has been introduced, for a period of three years.

[2] Ministère des Finances du Québec Bulletin d'information 98-3.

Briefly, this measure consists of a deduction in calculating the taxable income of an individual who, for a taxation year, carries on an independent FD trading business in Québec and holds an eligibility certificate issued by the Minister of Finance. The amount of the deduction an independent FD trader can claim is equivalent to the portion of the trader's income attributable to his trading activities carried out through the electronic platform of the Montréal Exchange on FDs listed electronically with the Montréal Exchange. However, this deduction is limited to an amount of $200 000 per year.

This measure is designed to help independent FD traders migrate from open-outcry trading to the electronic trading platform of the Montréal Exchange.

- **Tax holiday for foreign specialists working in an information technology development centre (1997)**

The concept of information technology development centres (CDTI) was introduced in the March 25, 1997 Budget Speech. Briefly, this measure is intended to support companies that promise to undertake, in designated buildings, innovative projects in the realm of the new information and communications technologies. Furthermore, a building designated as the Centre de développement des biotechnologies de Laval, dedicated to innovative projects in biotechnology, is also considered an CDTI for the purposes of the tax measures. The Centre de développement des biotechnologies de Laval was designated in the March 29, 2001 Budget Speech.

A tax holiday is granted to foreign specialists employed by a company carrying on a business in a CDTI. Such a foreign specialist may take advantage, for a period of five years, of a tax exemption on employment income from this job. The exemption consists in a deduction in the calculation of taxable income.

A foreign specialist is any person who did not reside in Canada immediately prior to being hired by a company carrying on a business in a CDTI, whose duties with the company consists almost exclusively in providing training, conducting research and development, performing specialized tasks from the standpoint of the management of innovation, marketing, technology transfers or financing innovation, or a combination of the foregoing responsibilities, and who possesses an attestation of eligibility. In the specific case of a foreign specialist employed by a corporation carrying on a business in the Centre de développement des biotechnologies de Laval, his duties with such corporation must consist almost exclusively in providing training, conducting research and development, performing specialized tasks from the standpoint of the management of innovation, marketing, technology transfers or financing innovation, other activities relating to the biotechnology sector, or a combination of the foregoing responsibilities.

Investissement Québec administers this tax measure. It monitors progress in achieving the government's objectives and issues the eligibility certificates needed to take advantage of this tax holiday.

This measure is intended to facilitate the recruiting of foreign specialists by companies carrying on a business in a CDTI or in the Centre de développement des biotechnologies de Laval.

- **Tax holiday for foreign specialists working in the Cité du multimédia, the Centre national des nouvelles technologies de Québec or a new economy centre (2000)**

Since the March 14, 2000 Budget Speech, a tax holiday similar to the one available to a foreign specialist working in a CDTI has been available to foreign specialists working for a corporation carrying on a business in the Cité du multimédia, the Centre national des nouvelles technologies de Québec or in a new economy centre. Accordingly, such a specialist can claim, for a period of five years, an exemption from tax on his income from such employment.

Investissement Québec administers this tax measure. It monitors progress in achieving the government's objectives and issues the eligibility certificates needed to take advantage of this tax holiday.

- **Tax holiday for foreign experts working in E-Commerce Place (2000)**

The E-Commerce Place concept was introduced on May 11, 2000. Briefly, the tax measures associated with this concept are designed to support job creation in the field of e-commerce operation and development.

A tax holiday is granted to foreign experts employed by a corporation carrying on a business in E-Commerce Place. Such a foreign specialist may take advantage, for a period of five years, of a tax exemption on income that comes from this employment. This exemption, which results in a deduction in the calculation of taxable income, is granted solely in conjunction with the general tax system.

A foreign specialist is any person who did not reside in Canada immediately prior to being hired by a corporation carrying on a business in E-Commerce Place, whose duties with the company consists almost exclusively in providing training, conducting research and development, development and operation of technological systems and infrastructures, performing specialized tasks from the standpoint of the management of innovation, marketing, technology transfers or financing innovation, or a combination of the foregoing responsibilities, and who possesses an attestation of eligibility issued by the Minister of Finance.

This measure is intended to facilitate the recruiting of foreign specialists by companies carrying on a business in E-Commerce Place.

- **Tax holiday for foreign specialists working in the Montréal Foreign Trade Zone at Mirabel (1999)**

An individual working as a foreign specialist in the Montréal Foreign Trade Zone at Mirabel (the Mirabel zone) enjoys a five-year total income tax exemption.

In this regard, a foreign specialist means and individual who is a manager or professional whose level of expertise is widely recognized in his milieu and who is employed in the Mirabel Zone by a company carrying on an eligible business.

- **Tax holiday for foreign experts (1999)**

A personal income tax exemption is granted to foreign experts on the salary they earn during a period of not more than 60 months, regarding their activities with a company doing scientific research and experiemental development (R&D) in Québec.

A foreign expert is anyone not residing in Canada immediately prior to hiring and who is recognized by the ministère de la Recherche, de la Science et de la Technologie as an expert in the management or financing of innovation, foreign commercialization or transfer of leading technology.

This measure is intended to facilitate the recruiting of foreign experts by companies wishing to carry out R&D, thereby encouraging the pursuit of these activities in Québec, and technology transfers.

- **Tax holiday for foreign professors (2000)**

A personal income tax exemption is granted to foreign professors on the salary they earn during a period of not more than 60 months, regarding their activities with a Québec university.

A foreign professor is anyone not residing in Canada immediately prior to hiring and whom the ministère de l'Éducation du Québec recognizes as holding a doctorate in the field of science, engineering, finance, health or new information and communications technology.

This measure is intended to facilitate the recruiting of foreign professors in these fields by Québec universities.

- **Tax credit for contributions to a labour-sponsored fund (FSTQ 1983 and Fondaction 1995)**

Until May 9, 1996, an individual who acquired, as the first purchaser, shares issued by the Fonds de solidarité des travailleurs du Québec (FSTQ) or by the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (Fondaction) was entitled to a non-refundable tax credit equivalent to 20% of the cost of acquisition of these shares, up to a maximum total tax credit of $1 000 per year.

Subject to the application of a transitional rule covering shares acquired in accordance with an obligation stipulated in a collective agreement concluded on May 9, 1996, at the latest, the FSTQ and Fondaction shares acquired by the first purchaser after this date and prior to January 1, 1998 entitled the purchaser to a non-refundable tax credit equivalent to 15% of their cost of acquisition, up to a maximum total tax credit of $525 per year.

Since 1998, the maximum amount of this tax credit has been $750 per year.

This measure is intended to facilitate the financing of the FSTQ and Fondaction in order to promote job creation and broader investment in small and medium-size Québec enterprises.

- **Tax credit for the acquisition of shares of Capital régional et coopératif Desjardins (2001 to 2010)**

An individual who acquired, as the first purchaser, shares issued by Capital régional et coopératif Desjardins is entitled to a non-refundable tax credit equivalent to 50% of the cost of acquisition of these shares, up to a maximum total tax credit of $1 250 per year.

Capital régional et coopératif Desjardins is a legal person with share capital whose mission is to mobilize venture capital for Québec's resource regions and cooperative sector.

This measure is intended to encourage taxpayers to participate in the economic development of the resource regions and the growth of cooperatives in Québec.

– **Recognition of certain special situations**

- **Refundable tax credit for adults housing their parents (1992)**

A refundable tax credit of $550 is granted to a taxpayer for each eligible parent whom he lodges in the dwelling he occupies. In order for the taxpayer to be entitled to this tax credit, the parent must be 70 years of age or over, or 60 or over and suffering from a severe and prolonged mental or physical impairment and, generally speaking, have lived with the taxpayer for 12 consecutive months, at least six of them in the year in which the tax credit is claimed.

For the purpose of this tax credit, the expression “eligible parent” means the father, mother, grandfather or grandmother of the taxpayer or his spouse and, since 2000, an uncle, aunt, great-uncle or great-aunt of the taxpayer or his spouse.

The tax credit for adults housing their parents is intended to recognize the social value of the gesture made by adults who lodge their parents at a time when financial constraints are making it increasingly difficult to create new places in reception centres.

- **Refundable tax credit for home maintenance of an older person (2000)**

The tax system grants a taxpayer 70 years of age or over a refundable tax credit equivalent to 23% of the eligible expenses he has incurred to obtain certain home support services (domestic services and direct personal services). However, the amount of expenses eligible for this tax credit is subject to a $12 000 annual ceiling, which allows a taxpayer to obtain a maximum tax credit of $2 760.

To take advantage of this tax credit, the taxpayer must, in particular, cover the expenses incurred to obtain home support services by means of the employment service paycheque, which enables the taxpayer to obtain payment of the tax credit in advance as he defrays the cost of these expenses.

- **Deductions for inhabitants of remote areas (1987)**

Individuals living in remote areas covered by regulation during a set period may take advantage of a deduction in respect of their residence and, if they enjoy because of their employment certain taxable benefits concerning travel, a deduction for travel. The deduction for their residence may reach $15 a day, without exceeding 20% of the taxpayer’s income for the year, while the deduction for travel applies to two vacation trips paid by the employer per year and trips, without restriction, paid by the employer for medical reasons.

These deductions are integral for the inhabitants of areas located farther north (northern zone); the inhabitants of the intermediary zone are entitled to 50% of the eligible amount.

For the years 1996 and 1997, the deductions for the inhabitants of remote areas reduced the income used to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for the QST, the tax credit for child care expenses and the real estate tax refund.

The criteria governing these deductions have not changed since 1996.

These deductions are intended to recognize the specific needs of the inhabitants of certain areas created by the remoteness of the areas and the high cost of living.

- **Refundable tax credit for individuals living in a northern village (1998)**

Since 1998, an individual living in a territory established as a northern village municipality pursuant to the *Act respecting Northern Villages and the Kativik Regional Government* may take advantage of a refundable tax credit. The basic amount of this tax credit depends on the number of months during which the individual lives in such a territory and his family situation.

For each month during which the individual inhabits this territory, he is entitled to $35, which is increased to $70 when the individual has a spouse. In addition to the $35 or $70, as the case may be, $15 is added for each dependent child of the individual for whom a child tax credit is claimed (prior to 2001, the amount of $15 was granted for each dependent child).

The basic amount determined with respect to the individual is then reduced at the rate of 15% for each dollar of family income, i.e. the individual's net income and, as the case may be, his spouse's income at the end of the year, established according to the rules of the simplified tax system, which exceeds $26 000. The various parameters of this tax credit (i.e. the amounts of $35 for each member of the couple and of $15 per dependent child and the threshold of $26 000) will be automatically indexed as of 2002.

This tax credit is intended to recognize the specific needs of the inhabitants of northern villages created by the remoteness of the villages, climate and the high cost of living.

- **Deduction for lodging of members of a religious order (1972)**

A taxpayer who is a member of the clergy or a religious order or a regular minister of a religious denomination may, subject to certain conditions and limits, deduct his housing expenses. The same is true of the value of the residence or dwelling that he occupies because of his employment, provided that this value is included in the calculation of his income for the year.

The special system tied to the housing expenses of members of a religious order reflects the special nature of the contributions and situation of these members.

- **Tax credit for the members of a religious community (1988, existed previously in the form of an exemption)**

A member of a religious community who has taken vows of perpetual poverty is entitled to a non-refundable tax credit of $792 (1996 and 1997), $911 (1998 and 1999), $871 (2000) and $822 (2001). As of 2002, this tax credit was once again set at $792.

Under the 1972 tax reform, it was decided to subject to taxation the income of the members of religious communities who had taken a vow of perpetual poverty and to grant them an additional exemption, which, at the time, was equivalent to the exemption accorded married persons. This exemption was based on the premise that a taxpayer who is a member of a religious order provides for the needs of the members of his community who do not have income.

- **Refundable tax credit for top-level athletes (2000)**

Athletes recognized by the Secrétariat au loisir et au sport as belonging to the "Excellence", "Élite" or "Relève" performance level may claim a refundable tax credit. The value of this tax credit may reach $4 000 for athletes at the Excellence and Élite levels, and $2 000 for those at the Relève level.

For each combination of level of performance and type of sport (individual or team), indicated in the attestation issued for the year to an individual, the tax credit granted for that year is equal to the proportion of the amount given in the following table for that combination represented by the relation between the number of days of the year indicated in the attestation for that combination and the number of days in the calendar year concerned.

TABLE 6
MAXIMUM AMOUNT OF THE REFUNDABLE TAX CREDIT FOR TOP-LEVEL ATHLETES
(dollars)

	Excellence	Élite	Relève
Individual sport	4 000	4 000	2 000
Team sport	2 000	2 000	1 000

This measure is designed to contribute to the development of sports in Québec and further support top-level athletes in their pursuit of excellence in sports.

– **Retirement**

- **Registered retirement savings plan (1972)**

There are two types of tax benefits inherent in registered retirement savings plans (RRSPs), i.e. the deductibility of the contributions paid into such plans and the non-taxation of the investment income accumulated therein.

Contributions are limited to 18% of earned income during the preceding taxation year, up to an absolute maximum of $13 500, less a pension adjustment, based on the contributions paid to a registered pension plan and, as the case may be, a deferred profit-sharing plan.

The amounts invested in an RRSP and the investment income generated by the plan are taxable when the funds are withdrawn.

Taxpayers benefit simultaneously from the deferral of tax on investment income and an absolute tax saving insofar as the tax rate on withdrawals is lower than the rate in effect when the deduction was granted in respect of the payment of contributions. They may also take advantage of income splitting if they contribute to a spousal RRSP.

Taxpayers can save money for retirement and thus avoid relying on the government at that time.

- **Registered pension plan (1972)**

The tax benefits inherent in recognized pension plans, called registered pension plans (RPPs) in the tax legislation, are of two types: the deductibility of contributions paid into such plans and the non-taxation of the investment income accumulated therein.

In the case of defined contribution RPPs, the amount deductible in respect of contributions to the plan for employers and employees may not exceed the ceiling established for the year, i.e. $13 500.

In the case of defined benefit RPPs, the amount an employee may deduct in the calculation of his income in respect of contributions to the plan is not subject to any ceiling. However, employer contributions are limited to the amounts necessary to cover the full funding of the anticipated benefits. The annual benefits of this type of RPP are limited to the lesser of $1 722.22 or 2% of earnings per year of service giving entitlement to a pension.

The amounts invested in an RPP and the investment income arising therefrom are taxed when the funds are withdrawn.

Taxpayers benefit simultaneously from the deferral of tax on investment income and, eventually, an absolute tax saving insofar as the tax rate on withdrawals is lower than the rate in effect when the deduction was granted in respect of the payment of contributions.

Taxpayers can save money for retirement and thus avoid relying on the government at that time.

- **Deferred profit-sharing plan (1972)**

An employer may pay, on behalf of his employees, tax deductible contributions to a deferred profit-sharing plan (DPSP). Essentially, this plan consists of an arrangement under which an employer pays part of his company's annual profits to a trustee, who holds and invests this contribution for the benefit of the employees participating in the plan.

When the employees withdraw the funds accumulated in such a plan, the funds are taxable.

The contribution that an employer pays into a DPSP in respect of an employee may not exceed the lesser of the following amounts: 18% of the employee's income and the excess of $6 750 over the total contributions paid by the employer to the employee's registered pension plan.

An employee can thus save for retirement while participating in the company's growth.

- **Tax credit for retirement income (1975)**

The tax system grants a non-refundable tax credit to individuals receiving certain types of retirement income. This tax credit corresponds to a maximum amount of $1 000 received in the form of eligible retirement income, converted at the rate of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

Retirement income that is eligible for the application of this tax credit includes, in particular, life annuity payments under a pension plan, payments from a registered retirement savings plan, and payments from a registered retirement income fund. However, such income does not include amounts received pursuant to the *Old Age Security Act* and the *Act respecting the Québec Pension Plan*.

This tax credit was initially implemented in order to protect pension beneficiaries from the high inflation rates in the 1970s. Since 1996, the $1 000 on which the calculation of the tax credit has been based has been gradually reduced according to income.

In 1996, this reduction, which stood at a maximum of $500, was made at the rate of 7.5% for each dollar of the taxpayer's net income exceeding $26 000, so that the taxpayer received a tax credit of at least $100.

In 1997, the tax credit was no longer granted to taxpayers whose net income totalled at least $32 667. The reduction was made at the rate of 15% for each dollar of the taxpayer's net income exceeding $26 000.

Since 1998, the $1 000 has been added to the $2 200 granted with respect to age and the $1 050 for individuals living alone, along with the corresponding amounts, as the case may be, of which the taxpayer's spouse may take advantage. The combined amount is reduced once. The rate of this reduction is 15% for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, his spouse's income at the end of the year, determined according to the rules of the simplified tax system, which exceeds $26 000 (this amount will be automatically indexed as of 2002).

For years prior to 1998, the unused portion of the tax credit for retirement income available to a taxpayer was transferable to his spouse. Since 1998, the spouses have been able to share this tax credit.

- **Tax credit with respect to age (1972)**

The tax system grants persons 65 or older a non-refundable tax credit calculated on the basis of an amount of $2 200. This amount is converted into a tax credit at rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

For 1996 and subsequent years, the $2 200 used as a basis for calculating this tax credit has been reduced gradually according to income.

In 1996, this reduction, which stood at a maximum of $1 100, was made using a rate of 7.5% for each dollar of the taxpayer's net income exceeding $26 000, so that the taxpayer received a tax credit of at least $220.

In 1997, this tax credit was no longer accorded to a taxpayer with net income of $40 667 or more. The reduction was made at the rate of 15% for each dollar of the taxpayer's net income exceeding $26 000.

Since 1998, the $2 200 has been added to the $1 000 granted in respect of retirement income and the $1 050 for individuals living alone, along with the corresponding amounts, as the case may be, of which the taxpayer's spouse may take advantage. The combined amount is reduced once. The rate of this reduction is 15% for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, his spouse's income at the end of the year, determined according to the rules of the simplified tax system, which exceeds $26 000 (this amount will be automatically indexed as of 2002).

For years prior to 1998, the unused portion of the tax credit with respect to age available to a taxpayer was transferable to his spouse. Since 1998, the spouses have been able to share this tax credit.

– **Health**

- **Tax credit for medical expenses (1988, existed previously in the form of a deduction)**

For 1996, an individual who covered his own eligible medical expenses and those of his spouse and dependants was entitled to a non-refundable tax credit equivalent to 20% of the portion of such expenses that exceeded the lesser of $1 614 and 3% of his net income for the year.

For 1997, this tax credit was equivalent to 20% of the portion of eligible medical expenses that exceeded 3% of the taxpayer's and his spouse's net total income, not solely the taxpayer's net income. Moreover, the limit of $1 614 was eliminated in 1997.

Since 1998, the tax credit corresponds to 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002) of the portion of eligible medical expenses that exceeds 3% of the individual's family income, i.e. the individual's net income and his spouse's net income at the end of the year determined according to the rules of the simplified tax system.

This tax credit is intended to offset a portion of the medical expenses that a taxpayer bears when such expenses exceed a certain level of income.

- **Refundable tax credit for medical expenses (1997)**

In order to more adequately consider the ability to pay of a low-income earner, the latter is entitled to a refundable tax credit in respect of the portion of his eligible medical expenses that exceed 3% of his family income. This tax credit, which is available to individuals whose earned income is at least $2 500, is equivalent to 25% of such expenses, up to a maximum of $500 that will be automatically indexed as of 2002. However, this tax credit is reducible at the rate of 5% for each dollar of family income exceeding $17 500 (this amount will be automatically indexed as of 2002).

For 1997, the family income considered for the application of this tax credit includes the taxpayer's overall net income and that of his spouse. Since 1998, such income has been equivalent to the individual's overall net income and the overall net income of his spouse at the end of the year determined according to the rules of the simplified tax system.

This tax credit is intended, in particular, to offset a portion of the loss of special benefits received by an income security beneficiary who is entering the labour market.

- **Tax credit relating to medical care not provided in the region of residence (1989)**

A taxpayer is entitled to a non-refundable tax credit equivalent to 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002) of the travel, housing and moving expenses he incurs so that he or a dependant may obtain in Québec medical care that is not available less than 250 km from his place of residence.

These measures are intended to offer tax relief to taxpayers who must assume certain expenses to obtain specialized medical care that is available only in major urban centres.

- **Tax credit for a person suffering from a severe and prolonged mental or physical impairment (1988, existed previously in the form of a deduction)**

A taxpayer suffering from a severe and prolonged mental or physical impairment that significantly hampers his ability to pursue a normal activity of everyday life is entitled to a non-refundable tax credit. This tax credit corresponds to an amount of $2 200, converted at a rate of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002). The unused portion of this tax credit is transferable to the spouse or parents of the person suffering from such an impairment.

This tax credit is intended to take into account the reduced capacity of taxpayers suffering from a severe and prolonged mental or physical impairment, their spouses or parents to pay tax because of the additional costs that they, their spouses or parents must assume.

– **Income support**

- **Non-taxation of last-resort assistance benefits (1972 to 1997)**

Until 1997, last-resort assistance benefits received by low-income earners were not taxable. While such benefits had to be included in income for the purpose of calculating tax, an equivalent deduction was allowed in the calculation of taxable income. However, these benefits were taken into account for the purpose of determining various tax credits that were reducible in light of the individual’s income.

Since 1998, a taxpayer is no longer authorized to deduct in the calculation of his taxable income the last-resort assistance benefits he receives pursuant to the *Act respecting income security*, replaced in 1999 by the *Act respecting income support, employment assistance and social solidarity,* or another similar provincial statute. However, given the harmonization of tax thresholds with transfer programs, beneficiaries for whom last-resort assistance is the only source of income during the entire year do not have to pay tax on such benefits.

- **Non-taxation of financial assistance with respect to child care expenses received under government employment assistance programs (2000)**

The financial assistance with respect to child care expenses granted a taxpayer under an active employment measure set up by Emploi-Québec or a program set up by the Canada Employment Insurance Commission is not taken into consideration in determining the taxpayer's income.

This measure is designed to recognize the costs incurred by parents actively seeking employment.

- **Non-taxation of the guaranteed income supplement and spouse's allowance (1972 and 1975, respectively)**

The guaranteed income supplement (GIS) is paid to retirees with low incomes receiving an old age pension. When the spouse of the beneficiary of the GIS (or a widower or a widow) is between the ages of 60 and 64, he may be entitled to the spouse's allowance. The amounts paid in respect of the GIS and the spouse's allowance are not taxable. While they must be included in income for the purpose of calculating tax, provision is made for an equivalent deduction in the calculation of taxable income. However, these amounts are taken into consideration to determine the various tax credits that are reducible in light of a taxpayer's income, except, since 1998, for the application of the spousal tax credit.

The amount of the guaranteed income supplement and the spouse's allowance is set bearing in mind that these benefits are not taxable.

- **Non-taxation of worker's compensation indemnities (1972)**

Worker's compensation indemnities are not taxable. While they must be included in income for the purpose of calculating tax, provision is made for an equivalent deduction in the calculation of taxable income. However, these indemnities are taken into account to determine the various tax credits that are reducible in light of a taxpayer's income, except, since 1998, for the application of the spousal tax credit.

The amount of the indemnities paid pursuant to federal or provincial legislation governing industrial accidents in respect of injuries, disability or death is set bearing in mind that these indemnities are not taxable. For example, the income replacement indemnity is usually equivalent to 90% of net after-tax employment income.

The employer contributions that are used to finance the payment of these indemnities are deductible in the calculation of business income.

- **Non-taxation of indemnities received from the Société de l'assurance automobile du Québec (1978)**

For 1996, indemnities received under title II of the *Automobile Insurance Act* or similar legislation in another province following a traffic accident were not added to income for the purpose of calculating tax. However, these indemnities, other than the amounts paid in the form of reimbursements of medical expenses, were taken into account to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST, and the real estate tax refund.

Since 1997, the income replacement indemnities paid pursuant to the *Automobile Insurance Act* or similar legislation in another province must be included in the calculation of net income. However, an equivalent deduction is granted in the calculation of taxable income. These indemnities have been taken into account to determine the various tax credits reducible in light of income, except, since 1998, for the application of the spousal tax credit.

The amount of the indemnities is set bearing in mind that these benefits are not taxable. For example, the income replacement indemnities are usually equivalent to 90% of net after-tax income.

- **Non-taxation of certain indemnities received as a victim of a crime (1972)**

For 1996, indemnities received pursuant to the *Crime Victims Compensation Act* or similar legislation in another province were not added to income for the purpose of calculating tax. However, these indemnities were taken into account to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST, and the real estate tax refund.

Since 1997, the income replacement indemnities paid pursuant to the *Crime Victims Compensation Act* or similar legislation in another province must be included in the calculation of net income. However, an equivalent deduction is granted in the calculation of taxable income. These indemnities have been taken into account to determine the various tax credits reducible in light of income, except, since 1998, for the application of the spousal tax credit.

The amount of the indemnities is set bearing in mind that these benefits are not taxable.

- **Non-taxation of certain income from indemnities regarding physical or mental injuries (1972)**

When a person sustains a physical or mental injury and he is indemnified for such injury, the investment income generated by this amount or by replacement property is exempt from tax until the end of the year in which the person reaches the age of 21.

Indemnities awarded in respect of physical or mental injuries are not usually taxable since they do not constitute income but instead, compensation for the loss of human capital. In the absence of an exceptional provision, the income generated by such capital would, however, be taxable.

- **Non-taxation of death benefits up to $10 000 (1972)**

Death benefits paid by an employer to a taxpayer following an employee's death in recognition of the services rendered by the employee in the course of his employment are not taxable, up to $10 000.

The amounts paid in death benefits by an employer are deductible in the calculation of his business income.

- **Non-taxation of pensions and indemnities (injuries, disability or death) paid to RCMP officers (1972)**

Pensions and various indemnities relating to injuries, disability or death paid to RCMP officers are not taxable. However, for years prior to 1998, such pensions and indemnities were taken into consideration to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST, and the real estate tax refund.

- **Non-taxation of allowances of war veterans, war pensions and allowances paid to civilians and other military pensions (including those paid by allied countries) (1972)**

The amounts paid to veterans and the war pensions and allowances paid to other persons pursuant to certain statutes are not taxable. However, for years prior to 1998, such pensions and allowances were taken into consideration to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST, and the real estate tax refund.

- **Non-taxation of disability pensions of war veterans and dependants' support allowances (1972)**

Financial compensation paid to veterans because of a battle injury and that paid to their dependants are not taxable. However, for years prior to 1998, such pensions and allowances were taken into consideration to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST, and the real estate tax refund.

- **Support amount and maintenance allowance (1972)**

Following a divorce or separation, the amounts paid as a support amount or a maintenance allowance are, subject to certain conditions, deductible in the calculation of the support-payer's income and must be included in the beneficiary's income.

In principle, the support-payer's ability to pay tax is reduced by the payment of support amount, while the recipient's ability to pay tax increases.

However, support amount received for the benefit of a child under a court order or a written agreement handed down or concluded, as the case may be, after April 30, 1997, is no longer taxable in the hands of the beneficiary parent and may no longer be deducted by the support-payer.

− **Other specific measures**

- **Transfer between spouses of certain non-refundable tax credits (1988, existed previously with respect to unused exemptions)**

For 1996 and 1997, an individual who had a spouse and could not take full advantage of his tax credits in respect of age, for retirement income or for a severe and prolonged mental or physical impairment because the amount of tax payable was insufficient could transfer the unused portion of these tax credits to his spouse.

Since 1998, among these tax credits, only the tax credit for a severe and prolonged mental or physical impairment is still subject to a genuine transfer between spouses since the amounts for retirement income and with respect to age may now be shared by the spouses, as they see fit.

This exceptional provision is intended to allow a household to benefit fully from the tax credits in question.

- **Transfer of non-refundable tax credits not used by a spouse (1998)**

A taxpayer who determines his tax payable according to the rules of the simplified tax system may deduct, in the calculation of his tax payable, the amount of non-refundable tax credits that his spouse has not used in order to eliminate his tax payable, provided that the spouse's tax payable is determined according to the same rules.

The following non-refundable tax credits are taken into consideration in respect of the application of this transfer:

– the basic tax credit;
– the tax credit relative to the flat amount;
– tax credits for dependent children and other dependants;
– the tax credit with respect to age, for a person living alone and for retirement income;
– the tax credit for a person suffering from a severe and prolonged mental or physical impairment;
– the tax credit for donations;
– the tax credit for contributions to authorized political parties;
– the tax reduction in respect of families;
– the tax credit relating to a labour-sponsored fund;
– the tax credit relating to the acquisition of shares of Capital régional et coopératif Desjardins (since 2001).

This tax shifting is intended to allow households that benefit little from tax expenditures to take full advantage of the non-refundable tax credit granted.

- **Non-taxation of gifts and bequests (1985)**

No tax on gifts or succession duty is payable when property is transferred by donation between living persons or because of death, as the case may be.

The elimination of the tax on gifts and of succession duties was announced in the 1985-1986 Budget Speech. The announcement acknowledged that the transfer of property under such circumstances may give rise to a capital gain on which income tax has already been levied. Québec was the only jurisdiction in Canada to levy a tax on gifts and succession duties.

- **Non-taxation of Indians' income situated on a reserve (1972)**

Pursuant to the *Indian Act* and the *Cree-Naskapi (of Québec) Act*, the income of an Indian or an Indian band is not taxable if it is situated on a reserve or land in category IA or IA-N, hereinafter called "reserves."

Québec fiscal policy with respect to the *Indian Act* and the *Cree-Naskapi (of Québec) Act* is confined to recognizing the effect of these statutes, which fall under exclusive federal jurisdiction pursuant to the *Constitution Act, 1867*.

For reasons of tax fairness, the Québec government has nonetheless extended the tax exemption stipulated in the foregoing statutes to include persons of Indian ancestry and considers certain establishments as reserves, although they are not, strictly speaking, reserves. Certain establishments group together Indian bands within a territory displaying all the traits of reserves, although they are not covered by the *Indian Act* or the *Cree-Naskapi (of Québec) of Act*.

For 1996, the income of an Indian or a person of Indian ancestry situated in a reserve was excluded from the calculation of the person's income. However, this income was taken into consideration to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST, and the real estate tax refund.

Since 1997, Indians and persons of Indian ancestry must calculate their net income like any other taxpayer, but they may deduct in the calculation of their taxable income any portion of this income that is situated on a reserve.

- **Non-taxation of funds accumulated in a registered home ownership savings plan (RHOSP) (1975)**

A taxpayer who is the beneficiary of an RHOSP may withdraw, tax free, all of the funds accumulated therein, provided that the excess of the funds thus withdrawn from the plan over the premiums paid into it after 1982 is used for one of the following purposes:

- the purchase of an owner-occupied home in the year of the withdrawal or within 60 days of the end of that year;
- the acquisition of new home furniture that is delivered at the latest on the 60th day following the end of the year of the withdrawal;
- when the funds are withdrawn after May 9, 1996, the execution of eligible renovation work, provided that such work is effected and paid for at the latest on the 60th day following the end of the year of the withdrawal.

This non-taxation ceased to apply on December 31, 1999, when the registration of all RHOSPs not yet liquidated was revoked.

This measure was intended to support the construction, home renovation and furniture industries.

- **Non-taxation and deduction for employees of certain international governmental organizations (IGOs) (1972 and 1991)**

A non-Canadian employee of an IGO, e.g. the International Civil Aviation Organization, which is established in Québec and has concluded an agreement with the government, and the members of the employee's family, may, if they satisfy certain conditions, take advantage of a total income tax exemption.

An individual employed by an IGO that is either the United Nations (UN) or a specialized agency attached to the UN may deduct in the calculation of his taxable income the income derived from such employment, provided that the IGO is not established in Québec. The same is true for an employee of such an organization that is established in Québec, provided that the organization has concluded an agreement with the government making provision for an income tax exemption in respect of the remuneration derived from such employment.

The fiscal policy is intended to promote the establishment in Québec of IGOs.

- **Non-taxation for the employees of certain international non-governmental organizations (INGOs) (1986)**

A non-Canadian employee of an INGO, e.g. the International Air Transport Association and the Société internationale de télécommunications aéronautiques, which is established in Québec and has concluded an agreement with the government, and the members of the employee's family may, if they satisfy certain conditions, take advantage of a total income tax exemption.

This measure is intended to promote the establishment in Québec of INGOs.

- **Non-taxation of government housing purchase or renovation assistance programs (1981)**

The subsidies and interest rate discounts offered under government housing purchase or renovation assistance programs, e.g. the *Programme de revitalisation des vieux quartiers*, are not generally taxable.

The taxation of the amounts granted under these programs would generally curtail the effective attainment of the objectives set.

- **Deduction of moving expenses (1972)**

Generally speaking, all reasonable moving expenses, e.g. transportation expenses, living expenses, the cost of temporary housing, and so on, incurred by a taxpayer are deductible if the taxpayer moves to a place that is at least 40 km closer to the place where he is to take up employment, carry on a business or study full time. However, the portion of the moving expenses reimbursed by the employer is not deductible.

The amount of this deduction is limited to income earned after the move. If the income thus earned is insufficient, the portion of the moving expenses not deducted may be deducted the following year. The expression "income earned" means employment income, business income, income from research grants and, for years prior to 2001, scholarships, fellowships or bursaries.

The tax system thus compensates taxpayers in respect of the costs they assume to take up a new job, carry on a new business or engage in post-secondary studies. This measure mainly promotes worker mobility.

- **Assistance for prospectors and prospecting sponsors**

When a prospector or a prospecting sponsor transfers a mining property to a corporation in exchange for shares of such corporation, the tax payable is deferred until the transfer of the shares. At that time, only a portion of the amount for which the mining property was transferred to the company must be included in income. This portion corresponds to the capital gain inclusion rate that applies at the time of the transfer of the shares.

- **Tax credit for gifts (1993, existed previously in the form of a deduction)**

Prior to 2000, an individual could take advantage of a non-refundable tax credit equal to 20% (1996 and 1997) and 23% (1998 and 1999) of the amount of eligible donations made during the year or in one of the five previous taxation years, provided that the amount of such donations was not taken into consideration in the calculation of his tax payable in a previous taxation year.

Since 2000, the tax credit for gifts has been calculated using two rates. For the first $2 000 taken into consideration in calculating the tax credit, the applicable rate is 22% (2000), 20.75% (2001) and 20% (as of 2002), i.e. the rate applicable to the conversion of recognized amounts into non-refundable tax credits. For an amount included in the calculation of this tax credit that exceeds $2 000, the applicable rate is 25% (2000), 24.5% (2001) and 24% (as of 2002), i.e. the maximum marginal rate applicable for the purposes of calculating personal income tax.

Donations giving rise to this tax credit are charitable gifts, Crown gifts, cultural gifts, donations of gifts with heritage value made after June 30, 1992, and donations of land with undeniable ecological value, including an encumbrance in respect of such land, made after May 12, 1994.

In the case of a gift-in-kind, the amount of the gift generally corresponds to the fair market value of the donated property. However, for gifts of works of art to a Québec museum after March 14, 2000, the amount used in the calculation of the tax credit for gifts is equal to the total of the amount representing the fair market value of the work of art (or of the amount deemed to be the fair market value) and 25% of such amount.

For 1996 and 1997, the amount of eligible charitable gifts could not exceed 20% of the donor's net income for that year except if the donor died in 1997, in which case the limit was raised to 100% of his net income. Since 1998, the 20% limit on net income has been 75% of such income and may reach 100% when the object of the donation is linked to the donee's mission.

Similarly, to qualify as eligible donations, the amount of Crown gifts after March 31, 1998 may not exceed 75% of the donor's net income for the year in which the donation is made, except if the donor died during the year or the preceding year, in which case the limit is raised to 100% of his net income. Moreover, the 75% limit on net income may reach 100% of such income when the object of the donation is linked to the donee's mission.

These measures are intended to promote the funding of charitable organizations and of cultural organizations and institutions. They seek to encourage the donation of works of art and property with heritage or ecological value.

- **Tax credit for contribution to a political party (1977 and 2001)**

For the years 1996 to 2000, a non-refundable tax credit was granted to an individual who made a contribution to an official representative of an authorized political party, an authorized authority of such a political party or an authorized independent candidate as contemplated in the *Election Act*. This tax credit was equivalent to 75% of the first $200 thus paid and to 50% of the next $200, for a maximum of $250 per year.

To ensure that the taxation system encourages citizens to participate in democratic life not only at the national level but also at the municipal level, the tax credit for political contributions also applies, since 2001, to municipal election contributions. All eligible contributions, whether they are national- or municipal-level contributions, are converted to a non-refundable tax credit at the rate of 75% .

Only contributions of money are eligible for this tax credit and total contributions paid must not exceed:

- $140, when the contributions are paid to a party or independent candidate authorized to receive such contribution under the *Act respecting elections and referendums in municipalities*;

- $400, when the contributions are paid to a political party, a party authority or an independent candidate authorized to receive such a contribution under the *Election Act*.

This measure is intended to facilitate the funding of political parties and encourage Quebecers to participate actively in democratic life.

- **Refundable tax credit for taxi business (1984 and 2001)**

Prior to 2001, taxpayers who held a valid taxi permit could take advantage of a refundable tax credit of $500 for each taxi permit they held, other than a taxi permit issued for taxi service in a territory included in whole or in part in a region subject to a fuel tax reduction.

However, if the vehicle or vehicles associated with a taxi permit had been used by one or more drivers and they had borne all or part of the cost of fuel to place these vehicles in service, the holder of the permit had to remit to each of the drivers the portion of the tax credit attributable to him in proportion to the mileage covered.

This credit was intended to offset a portion of the fuel tax paid in respect of a taxi vehicle serving a region in which there is no reduction in the fuel tax.

Various changes have been made to the refundable tax credit for taxi business since 2001 so that, in particular, it is paid directly to the taxi drivers and applies to all regions of Québec.

A taxpayer who holds a taxi driver's license but not a taxi owner's permit, or who has a single taxi owner's permit is entitled, if he bore all or almost all the cost of fuel to place a taxi in service, to a refundable tax credit equal to the lesser of $500 or the amount representing 2% of all his income from his taxi driver employment, his taxi service business and from the rental of the automobile associated with a taxi owner's permit he holds.

Furthermore, a taxpayer who holds many taxi owner's permits is entitled to a refundable tax credit equal to the lesser of the amount representing 2% of all his income from his taxi driver employment, his taxi service business and from the rental of the automobile associated with a taxi owner's permit he holds, or the amount equal to the product of the multiplication of $500 by the number of each taxi permit he holds if he bore all or almost all the cost of fuel to place any automobile associated with this permit in service.

- **Premier toit refundable tax credit (1995 to 1998)**

A taxpayer who purchased a new home or renovated an existing dwelling was entitled to a refundable tax credit equivalent to either:

- 20% of the interest paid during the first two years in respect of the loan he contracted to purchase a new home, up to $2 000 per year;

- 10% of the renovation expenses (minimum of $10 000) incurred in the year following the year an existing home was purchased, up to a maximum of $3 000.

To take advantage of this tax credit, the taxpayer had to purchase an eligible home between December 21, 1994 and December 31, 1995. Moreover, when the taxpayer purchased an existing home, he had to obtain an attestation from the host municipality confirming the renovation expenses incurred by submitting a request to this effect by December 31, 1997 at the latest.

This tax credit was intended to temporarily enable a greater number of taxpayers to purchase homes.

- **Property tax refund for forest producers (1985)**

The property taxes paid by forest producers actively engaged in developing their woodlots and possessing a certificate issued for this purpose by the Minister of Natural Resources may be subject to a refund, in an amount equivalent to 85% of the property taxes that the forest producers have paid in respect of their productive assets.

In this way, the tax system promotes the development of the Québec forest industry through the optimum development of private Québec woodlots.

1.4 Tax measures shown for information purposes

– **Basic tax credit (1988, existed previously in the form of an exemption)**

The tax system grants all individuals (except in the case of a trust) a non-refundable tax credit calculated on the basis of an amount of essential recognized needs of $5 900, which will be automatically indexed as of 2002, converted into a tax credit at the rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

The basic tax credit is intended to avoid taxing income that the taxpayer devotes to the satisfaction of his essential needs, e.g. food, housing, and so on, and makes it possible to integrate income security transfers and taxation.

– Employment insurance contributions (1972)

Employee contributions under federal employment insurance legislation are converted into a non-refundable tax credit at the rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

Moreover, employer contributions to employment insurance are deductible in the calculation of business income and are not a taxable benefit in the hands of the employees.

These rules reflect the taxation of employment insurance benefits. Furthermore, employment insurance contributions are deemed to be an expense incurred to earn income.

– Contributions to the Québec Pension Plan (1972)

Contributions paid by employees to the Québec Pension Plan (QPP) or the Canada Pension Plan (CPP) are converted into a non-refundable tax credit at the rates of 20% (1996 and 1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

Moreover, contributions paid by employers to the QPP or the CPP are deductible in the calculation of business income and are not a taxable benefit in the hands of the employees.

For years prior to 2000, contributions by self-employed workers, like those by employees, gave rise to a non-refundable tax credit.

Since 2000, only half the contribution payable by a self-employed worker to the QPP or the CPP is converted into a non-refundable tax credit at rates of 22% (2000), 20.75% (2001) and 20% (as of 2002). The second half of the contribution payable by the self-employed worker gives rise to a deduction in the calculation of net income.

The applicable tax treatment stems from the taxation of benefits received under the QPP and the CPP, and reflects the compulsory nature of contributions to these plans.

The measures applicable to self-employed workers are designed more specifically to prevent these workers being disadvantaged in relation to owner-operators who are also employees of their business.

– **Tax credit for union and professional dues (1997, existed previously in the form of a deduction)**

Until 1996, individuals who paid dues to a recognized professional association or a union could deduct these amounts when calculating their employment or business income, as the case may be. Since 1997, these contributions have been converted into a non-refundable tax credit at rates of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (as of 2002).

In virtually all cases, such dues are compulsory and are paid to allow for the occupation of a job or the operation of a business. Consequently, they may be deemed an expense incurred in order to earn income.

– **Deduction of certain employment-related expenses (1972)**

Generally speaking, the expenses incurred by employees in respect of their office or employment are not deductible. However, certain specific expenses pertaining to an office or employment may be deducted in the calculation of the income derived therefrom, such as travel expenses (transportation, meals and lodging), supplies consumed directly in the accomplishment of their duties, and judicial expenses paid to collect wages due.

This measure recognizes that certain expenses are necessary to earn employment income and is intended to ensure that only a taxpayer's real economic gain is taxed.

– **Non-taxation of allowances paid to certain public officers (1972)**

An elected municipal official, a member of the National Assembly or the legislature of another province, or a member of the Senate or the House of Commons may, generally speaking, receive a non-taxable allowance in respect of expenses incurred in the accomplishment of his duties.

This measure is intended to recognize that a portion of the remuneration of an elected official or a member of the Senate is used to offset the expenses inherent in the performance of his duties. Employment expenses or expenses relating to an office are not usually deductible in the calculation of income.

– **Non-taxation of indemnities paid to diplomats and other government employees stationed abroad (1972)**

Diplomats and other government employees stationed abroad receive a non-taxable income supplement intended to cover the additional costs inherent in a posting outside Canada.

The non-taxation of this supplement is intended to ensure that the amount paid to a diplomat or such employees in order to compensate them is not insufficient because of the tax treatment accorded the supplement.

– **Deduction of expenses of an attendant (1989)**

An individual suffering from a severe and prolonged mental or physical impairment may deduct, in the calculation of his income, the fee he pays a person to provide care that allows him to engage in employment, carry on a business, conduct research or perform similar work for which he has received a grant, and, since 2000, attend a recognized educational institution or secondary school.

For 1996, the deduction could reach two-thirds of the taxpayer's eligible income (employment and student income), up to a maximum of \$5 000. Since 1997, this second limit of \$5 000 has been eliminated.

This measure is intended to facilitate the integration into the labour market of individuals suffering from a severe and prolonged mental or physical impairment and recognizes that the expenses of an attendant are incurred in order to earn income. It is also designed to make the system fairer regarding taxpayers who are physically able to work compared to those facing additional expenses attributable to an impairment.

– **Deduction of expenses incurred to earn investment income (1972)**

Interest and other financial expenses, such as the fees of investment counsellors, which are incurred in order to earn business or property income, are deductible in the calculation of a taxpayer's income, except, since the 1998 taxation year, as regards safety deposit box rental fees. However, since the introduction in 1998 of the simplified tax system, expenses incurred to earn investment income other than those attributable to a business or the rental of properties have been granted solely in conjunction with the general tax system.

This measure recognizes that certain expenses are necessary to earn income and is intended to ensure that only a taxpayer's real economic gain is taxed.

– **Dividend gross-up and tax credit (1972)**

While an individual usually includes in the calculation of his income amounts actually received, the dividends of taxable Canadian corporations are subject to a 25% gross-up in the calculation of income.

However, the individual may deduct from the tax otherwise payable an amount in respect of the dividend tax credit. Prior to January 1, 1999, the dividend tax credit was equivalent to 8.87% of the grossed-up dividend. In conjunction with the reform of the corporate tax system, the dividend tax credit rate was raised to 9.85% for 1999, and 10.83% for subsequent years.

These calculations are intended to establish some degree of neutrality in the tax treatment of dividend income in relation to business or employment income, bearing in mind that the dividend represents the distribution of a company's profit, which has already been taxed in the company's hands.

– **Non-taxation of capital dividends (1972)**

Private companies may pay their shareholders, in the form of capital dividends, the exempt portion (¼ prior to February 28, 2000, ⅓ between February 27, 2000 and October 18, 2000, ½ since October 18, 2000) of the capital gains realized and accumulated in their capital dividend account. Such dividends are not taxable. The capital dividend account is the same as the one calculated for federal tax purposes.

This rule is intended to recognize that the exempted portion of the capital gain realized by a company must not be subject to a taxable dividend, otherwise the principle of the partial exemption of the capital gain could not be maintained when the gain is realized by a company. However, such a rule applies solely to private companies.

– **Deduction of farm losses of part-time farmers (1972)**

Individuals for whom farming is a secondary source of income may deduct their farm losses, up to a maximum of $8 750 a year, against their other types of income.

The non-deductible portion in the current year may be carried back over three years and carried forward over 10 years, up to the amount of income derived from a farming enterprise.

This restriction is imposed on so-called hobby farmers who have a reasonable expectation of turning a profit. It has the effect of limiting the loss likely to be deducted against other sources of income, contrary to other business losses, which are unlimited.

This limit on the deduction of the loss against other sources of income is intended to ensure that the special provisions applicable to farmers are not used as a tax shelter by taxpayers who receive substantial non-farming income.

– **Carry-over of farm and fishing losses (1972)**

Since 1983, farm and fishing losses have been subject to a carry-back of three years and a carry-forward of 10 years (previously, seven years). Other business losses may be carried forward seven years.

This more flexible measure is intended to take into account the specific conditions facing farmers, whose income usually fluctuates appreciably. Moreover, their economic cycle is generally longer.

– **Capital loss carry-over (1972)**

A capital loss may result from the disposal of a capital property.

A net capital loss, i.e. briefly, the excess of a taxpayer's eligible capital losses for a given year over his taxable capital gains in the same year, may be carried back over the three years preceding the year in which the loss is sustained and carried forward indefinitely in subsequent years. However, a taxpayer may usually only deduct a net capital loss against his net taxable capital gains.

The indefinite carry-forward stipulated in tax legislation reflects the nature of a capital gain or loss, which is not usually recurrent.

– **Carry-over of losses other than capital losses (1972)**

Losses other than capital losses may be carried back for three years and carried forward for seven years and charged against other income.

This measure is intended to better match income and losses in a given economic cycle.

– **Non-taxation of lottery and gambling earnings (1972)**

Lottery and gambling earnings are excluded from income for tax purposes.

Lottery winnings or gambling earnings are the result of chance and are not a recurrent source of income.

– **Foreign tax credit (1972)**

An individual residing in Québec or a company residing in Canada and carrying on a business in Québec is entitled, subject to certain restrictions, to a tax credit in respect of tax paid to a government of a jurisdiction other than a Canadian jurisdiction.

This tax credit is intended to avoid double taxation and ensures that the taxpayer pays at least the greater of:

- Québec tax attributable to income taxed abroad;
- the foreign tax attributable to such income.

– **Amounts exempt from tax under a tax agreement**

The tax system provides for the precedence of tax agreements reached by the Québec government and a foreign state to avoid double taxation and prevent tax evasion in respect of income and wealth tax.

In the absence of a tax agreement between Québec and a given state, the tax system takes into consideration certain provisions of tax agreements reached by the federal government. This recognition results in a deduction in the calculation of taxable income regarding amounts that, under the terms of the agreement, are taxable solely in the foreign state.

The purpose of this measure is to avoid subjecting taxpayers to double taxation.

– **Recovery of averaged income (1982 to 1997)**

Under the 1987 tax reform, the income averaging system in respect of subsequent years was eliminated. However, the averaged amounts deducted for years prior to 1988 could be reintegrated into income in a subsequent year, up to 1997, inclusive, thus allowing the taxpayer to obtain a non-refundable tax credit at the highest marginal rate during the year in question.

Consequently, no amount entitled the taxpayer to income averaging after 1987, but the amounts averaged prior to 1988 could be reincorporated into taxable income for up to 10 years. Since 1998, the cumulative averaged amount is nil, so that no tax credit calculated at the highest marginal rate may be granted after that year.

2. TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM

2.1 Income tax

– Reduced tax rates and exemptions

• Reduced tax rate for small businesses (1972)

Until June 30, 1999, most Canadian-controlled private corporations (CCPC) were entitled to a reduction in their tax rate, commonly called the "small business deduction" (SBD). The SBD reduced the rate of Québec income tax applicable on the first $200 000 of income from an eligible business carried on by a CCPC by 3.15 percentage points.

Briefly, any business carried on by a corporation was eligible, other than certain businesses whose major objective was to earn income from property or to provide services which, in fact, were supplied by the shareholder of such corporation, as part of a relation with his customers which was similar to an employer-employee relation.

However, it is to be noted that following the 1994-1995 Budget Speech, large private corporations, like large public corporations, could no longer claim the SBD (gradual loss beginning at paid-up capital of $10 million, with total loss at $15 million).

This reduced tax rate attempted to introduce a degree of progressivity in tax payable by corporations, by favouring small and medium-size enterprises (SMEs).

The measure was repealed as part of the corporate taxation reform announced on March 31, 1998. It no longer applies for taxation years ending after June 30, 1999.

• Reduced tax rate for savings and credit unions (1972)

Like any other Canadian-controlled private corporation, a savings and credit union was entitled, before the corporate taxation reform announced on March 31, 1998, to the small business deduction, but regarding a greater amount than the first $200 000 of income from an eligible business it carried on. This additional reduction of 3.15 percentage points in the tax rate applied as long as the cumulative earnings of the credit union had not reached an amount equal to the amount of its maximum cumulative reserve.

Briefly, the maximum cumulative reserve of a savings and credit union is equal to 5% of the amounts it owes to its members (including its deposits and the amount of shares held by its members).

The purpose of the measure was to enable a savings and credit union to build up capital under favourable tax conditions, up to 5% of its deposits and its capital.

As part of the corporate taxation reform, it was announced that, while a credit union would no longer be entitled to the basic SBD because of its repeal, it would continue to be entitled to a deduction equivalent, in value, to those it would have obtained under the rules applicable prior to the reform.

- **Exemption of registered charities and non-profit organizations (1972)**

Registered charities and non-profit organizations, whether incorporated or not, are exempt from income tax.

This is a preferential measure explained by the nature of the activities carried out by such organizations.

- **Exemption of government organizations (1972)**

Municipalities, public organizations carrying out government functions, provincial government corporations and most federal Crown corporations are exempt from income tax. However, some federal Crown corporations, generally those carrying on significant commercial operations, are taxable.

The purpose of this measure is to avoid collecting tax on activities which, in fact, are government activities. In the particular case of taxable federal Crown corporations, they are subject to tax because of the nature of the activities they carry out and to ensure that they do not enjoy an unfair advantage compared to their taxable competitors.

- **Five-year tax holiday for new corporations (1986)**

Québec’s tax system provides for a tax exemption on the income of new Canadian-controlled private corporations for the first five years of operation. This exemption applies to the first $200 000 of income from an eligible business carried on by the corporation. The tax holiday was for three taxation years for corporations whose first taxation year started before March 26, 1997.

Briefly, any business carried on by a corporation is eligible, other than certain businesses whose major objective is to earn income from property (an apartment building, for instance) or to provide services which, in fact, are supplied by the shareholder of such corporation, as part of a relation with his customers which is similar to an employer-employee relation. A corporation may be eligible for the tax holiday for a taxation year if its paid-up capital for the preceding taxation year was less than $15 million.

A deduction is also allowed such a corporation in calculating its paid-up capital for the purposes of the tax on capital.[3]

The tax holiday for new corporations was broadened in the 1996-1997 Budget Speech. A new corporation may also claim an exemption regarding its employer contributions to the Health Services Fund (HSF) attributable to wages paid or deemed paid during its initial years of operation.[4]

The purpose of this measure is to encourage the formation of new businesses and offer some recognition of the significant costs involved in starting up a business.

- **Tax exemption for international financial centres (1986)**

An international financial centre (IFC) is a business or part of a business all of whose activities bear on financial transactions of an international nature, called eligible international financial transactions (EIFT).

Briefly, a corporation or the members of a partnership, as the case may be, which operates an IFC in Montréal, as well as certain of their employees, can claim various tax benefits, namely:

- a total or partial tax exemption, as the case may be, on the profits from EIFTs;
- an exemption from the tax on capital regarding the paid-up capital reasonably attributable to the operations of the IFC;
- an exemption from employer contributions to the Health Services Fund (HSF) and the compensatory tax of financial institutions regarding the salaries paid to employees of the IFC;
- a refundable tax credit relating to the apprenticeship period of young specialized employees;
- a refundable tax credit for canvassing expenses;
- a refundable tax credit regarding canvassing expenses incurred to obtain a mandate to manage foreign investment funds;
- a full tax exemption, for five years, for foreign specialists employed by an IFC;

3 This tax expenditure is considered in the section “Tax on capital”.

4 This tax expenditure is considered in the section “Health Services Fund”.

– a partial tax exemption, for up to on half of their remuneration, for Canadian employees of an IFC.

The March 31, 1998 Budget Speech introduced many changes to the rules governing IFCs. In addition to stipulating the consolidation, within a separate law, of the tax and prescriptive provisions relating to IFCs, these changes were also designed to broaden the range of eligible activities, ease certain requirements and introduce refundable tax credits for IFCs.

In terms of income tax, the benefit granted to operators of an IFC consists of a tax exemption of the profits earned from EIFTs. The exemption is 100% when the operator is a corporation and, when the operator is a partnership, 30% in the case of a partner who is an individual who resides in Canada and 100% in other cases.

The purpose of this tax exemption is to encourage companies in the financial sector to set up an IFC in Montréal in order to carry out certain transactions of an international nature, such as portfolio management for persons who are not residents of Canada, foreign securities management or exchange operations.

- **Tax exemption for corporations carrying out an innovative project in an information technology development centre (1997)**

The concept of Centres de développement des technologies de l'information (CDTI), or information technology development centres, was introduced in the March 25, 1997 Budget Speech. Briefly, it is designed to support corporations which undertake to carry out, within designated buildings, innovative projects in the new information and communications technologies field. Furthermore, a building designated as the Centre de développement des biotechnologies de Laval, dedicated to innovative projects in biotechnology, is also considered a CDTI for the purposes of the tax measures. The Centre de développement des biotechnologies de Laval was designated in the March 29, 2001 Budget Speech.

Corporations that carry out an innovative project in such a building can claim the following tax benefits:

– an income tax exemption;

– an exemption from the tax on capital;

– an exemption from employer contributions to the HSF;

– a refundable tax credit for salaries paid to eligible employees;

– a refundable tax credit for the acquisition or lease of eligible specialized equipment.

In the specific case of a corporation that carries out an innovative project in the biotechnology sector in the Centre de développement des biotechnologies de Laval, it can also claim a refundable tax credit equal to 40% of the amount of eligible lease expenses relating to short-term leasing, during the five-year tax holiday it enjoys, of eligible specialized installations.

In addition, a foreign specialist employed by a corporation carrying on a business in a CDTI can claim, for a period of five years, an exemption from tax on his income from such employment.

Concerning income tax more specifically, a corporation which carries out an innovative project in a CDTI can claim an income tax exemption for its first five years of operation.

This tax measure is administered by Investissement Québec, which oversees the achievement of the government's objectives and issues the eligibility certificates necessary to claim these tax benefits.

- **Tax exemption regarding income earned from the administration and management of new investment funds (1998)**

The March 31, 1998 Budget Speech introduced tax benefits to support the development of new investment funds administered and managed in Québec. Tax assistance is granted to eligible corporations which create such funds after December 31, 1997 and before April 1, 2001.

This tax assistance takes the form of a refundable tax credit for eligible start-up expenses incurred in relation to the creation of eligible investment funds,[5] as well as a tax exemption regarding the income earned from the administration and management of such funds.

More specifically, this income tax exemption is granted to an eligible corporation, for a period of five years, regarding the income it earns from the administration and management, in Québec, of eligible investment funds.

By stimulating the creation and management of investment funds in Québec, this measure is designed to develop Québec expertise in portfolio management and the development of financial products.

[5] This tax expenditure is considered in the sub-section "Refundable tax credits".

- **Tax holiday concerning the Montréal Foreign Trade Zone at Mirabel (1999)**

The Montréal Foreign Trade Zone at Mirabel (the Mirabel Zone) was created in 1999 to support the location of strategic businesses that will contribute to the development of Mirabel and bolster the role of the greater Montréal region as a hub of international trade.

For this purpose, a corporation that carries on, within the Mirabel Zone, an eligible business, i.e. a business in any of the four following sectors, namely international logistics, aircraft maintenance and repair, supplementary professional training in aviation, and light processing, or a business that, in the view of the Minister of Finance, is of particular interest for Québec's economy, enjoys a tax exemption on the income earned from such business until December 31, 2010.

In addition, more generally, such corporation, as well as certain of its employees, can also claim various tax benefits, namely:

- an exemption from the tax on capital in relation to the portion of the corporation's paid-up capital that is reasonably attributable to the operation of such eligible business;

- an exemption from employer contributions to the Health Services Fund (HSF) regarding salaries paid to certain eligible employees;

- a refundable tax credit on the salaries of eligible employees;

- a refundable tax credit regarding an eligible customs brokerage contract;

- a refundable tax credit relating to the acquisition or lease of eligible equipment;

- a total income tax exemption, for a period of five years, granted to certain foreign specialists.

These tax benefits are described in greater detail under headings specific to them.

- **Tax holiday for eligible corporations to support the development of securities exchanges and clearing-house corporations in Montréal (2000)**

In general, a corporation that, during a taxation year, carries on a securities exchange business or a securities clearing-house corporation in Québec, carries out such operations in an establishment located within the territory of the City of Montréal, and more than half of whose salaries paid to employees of the corporation are paid to employees of an establishment located in Québec, may benefit from the tax measures in support of the development of securities exchanges and securities clearing-house corporations.

Briefly, these support measures enable eligible corporations to benefit, until December 31, 2010, from an exemption from income tax, an exemption from the tax on capital[6] and an exemption from employer contributions to the Health Services Fund[7] (HSF) in relation to the securities exchange business or securities clearing-house corporation they carry on within the territory of the City of Montréal.

More specifically, in terms of income tax, these support measures consist of a deduction, in the calculation of the taxable income of an eligible corporation, of the income it earns as a securities exchange or securities clearing-house corporation, for any taxation year or part of a taxation year included in the period beginning October 1, 2000 and ending December 31, 2010.

These tax support measures are designed to accelerate the positioning of the Montréal Exchange on the world financial derivatives market and foster broader access to capital markets for Québec corporations.

- **Tax holiday regarding major investment projects (2000)**

In the March 14, 2000 Budget Speech, the government introduced a tax holiday regarding major investment projects. This tax holiday replaces the tax rate guarantee mechanism that ensured stability of tax rates for companies that undertake major investment projects.

Essentially, the tax holiday enables eligible taxpayers that carry out a major investment project in Québec to benefit, for a period of ten years beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax, an exemption from the tax on capital and an exemption from employer contributions to the Health Services Fund (HSF) relating to the business carried on following the completion of the major investment project.

6 This tax expenditure is considered in the section “Tax on capital”.

7 This tax expenditure is considered in the section “Health Services Fund”.

In general, an investment project, in order to qualify as a “major investment project”, must be carried out in the primary sector, the manufacturing sector or the propulsive service sector, excluding placement offices and accounting services. Major investment projects carried out in the traditional tertiary sector, as well as in a sector incidental thereto, are also eligible if they consist in developing an international resort. Furthermore, certain criteria must be met, within specific times, particularly regarding minimum investment thresholds to be achieved and growth in payroll. Lastly, to obtain the tax holiday, an initial eligibility certificate as well as annual eligibility certificates must be issued by the Minister of Finance.

In addition, to maintain a direct link between the purpose of the tax holiday and the reason for which it is granted, namely the undertaking of a major investment project by a taxpayer, the tax holiday is granted for an investment project carried out by the taxpayer, i.e., more specifically, as if the activity carried on after the project is completed constitutes the carrying on of a separate business by a separate person.

Concerning income tax more specifically, a corporation can benefit, for the ten-year period beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax consisting of a deduction in calculating taxable income. This deduction is based on the income the corporation earns from the separate business, i.e. the income earned from the activity carried on following the completion by the corporation of the major investment project.

This tax holiday is designed to further encourage businesses to undertake major investment projects in Québec.

- **Ten-year tax holiday for manufacturing SMEs in remote resource regions (2001)**

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

Generally speaking, a corporation all of whose activities consist mainly in carrying on a manufacturing or processing business in one of Québec’s remote resource regions may enjoy, from March 30, 2001 to December 31, 2010, a tax holiday in relation to such business, with respect to income tax, the tax on capital and employer contributions to the Health Services Fund (HSF). The tax bases covered by this holiday are not subject to a cap.

In this regard, a corporation's activities as a whole consist mainly in carrying on a manufacturing or processing business if over 50% of its payroll or over 50% of its assets are attributable to manufacturing or processing.

Québec's remote resource regions are the administrative regions of Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine and the RCMs of Antoine-Labelle, Vallée-de-la-Gatineau, Pontiac, Haut-Saint-Maurice and Mékinac.

A corporation enjoys the full benefit of the tax holiday for a taxation year if its paid-up capital applicable for such year, calculated on a consolidated basis, does not exceed $10 million. However, a partial tax holiday is granted, for a taxation year, if the paid-up capital applicable for such year, calculated on a consolidated basis is between $10 million and $15 million.

An eligible corporation can benefit from the tax holiday on all its income from an eligible business. This tax holiday consists of a deduction in calculating taxable income.

A deduction is also allowed such a corporation in calculating its paid-up capital for the purposes of the tax on capital.[8]

Lastly, such a corporation may also claim an exemption regarding employer contributions to the HSF attributable to wages paid or deemed paid.[9]

- **Exemption of labour-sponsored funds (1989)**

The corporation governed by the Act to establish the Fonds de solidarité des travailleurs du Québec (FSTQ) and, since 1995, the corporation governed by the Act to establish Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (Fondaction), do not have to pay income tax, since they can claim a deduction equivalent to their taxable income.

The purpose of this measure is to increase the funds available to the FSTQ and Fondaction to encourage job creation and investment in small and medium-size enterprises in Québec.

- **Exemption of Capital régional et coopératif Desjardins (2001)**

Capital régional et coopératif Desjardins is a legal person with share capital whose mission is to mobilize venture capital for Québec's resource regions and cooperatives. Until December 31, 2010, it is authorized to collect up to $1.5 billion of capital enjoying a tax benefit.

Capital régional et coopératif Desjardins pays no income tax, since it may claim a deduction equivalent to its taxable income.

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[8] This tax expenditure is considered in the section "Tax on capital".

[9] This tax expenditure is considered in the section "Health Services Fund".

This measure is designed to increase the liquidity available to Capital régional et coopératif Desjardins for investment in the resource regions and to foster the capitalization of cooperatives.

- **Non-taxation of tax credits**

Many tax credits stipulated in Québec's tax legislation are not taxed by Québec even though they constitute a form of assistance received from the government and such assistance is generally taxable. Such is the case, in particular, of the tax credits for scientific research and experimental development, the tax credit for design, the tax credit for on-the-job training periods, the tax credit for shipbuilding or conversion, the tax credit for the maintenance of racehorses and the tax credit regarding resources.

Québec does not tax Québec tax credits to avoid diminishing the assistance otherwise granted to businesses through these tax credits.

As for the tax credits stipulated in federal legislation, they are generally taxable. However, an exception did exist for the federal tax credit for investment in R&D. However, this exception was withdrawn in the 1996-1997 Budget Speech. Nonetheless, it should be noted that this tax credit does not change the amount of Québec tax credits for R&D granted for expenditures which entitle the taxpayer to this federal tax credit.

– **Deductions**

- **Deduction relating to resources (1975)**

The tax legislation provides for a deduction relating to resources which is equal to 25% of the profits the taxpayer earns from resources in the year, before deducting exploration expenses, development expenses and interest expenses.

The deduction relating to resources makes allowance for the non-deductibility of royalties paid to the Crown, mining duties and other charges applicable to oil, gas or mining production. Accordingly, it is designed to ensure that developers of oil, gas or mining resources do not bear an excessive tax burden.

- **Deductibility of royalties paid to Indian bands (1975)**

Royalties and rent paid to Indian bands regarding oil and gas leases on Indian reserves are considered to be amounts paid in trust to the Crown in right of Canada for the use and benefit of the Indian band in question. Unlike public charges which are not deductible, amounts paid to an Indian band are generally deductible for income tax purposes.

In addition, the earnings derived from resources, after deducting government charges, entitle the taxpayer to the deduction relating to resources.

- **Earned depletion (1974)**

Earned depletion is a supplementary deduction of certain operating and development expenses as well as other expenses relating to resources incurred prior to 1990. Taxpayers can deduct up to 33 1/3% of certain operating expenses or of the cost of assets relating to a new mine or a major extension of an existing mine. These deductions are generally limited to 25% of annual earnings derived from resources by taxpayers.

As in the case of Canadian exploration expenses or Canadian development expenses, earned depletion could be entered in a special account whose balance could be deducted in a subsequent taxation year, with an indefinite carry-over period.

Earned depletion was eliminated on January 1, 1990. No amount can be added to the earned depletion account after December 31, 1989, but existing accounts can continue to entitle the taxpayer to depletion deductions.

- **Deductibility of gifts (1972)**

A corporation may deduct, in calculating its taxable income, the amount of eligible gifts it made during a year or one of the five preceding taxation years, provided the amount of such gifts was not included in calculating its taxable income for a prior taxation year.

Gifts entitling the taxpayer to this deduction are charitable donations, gifts to the Crown, gifts of property with heritage value made after June 30, 1992 as well as gifts of land with undeniable ecological value, including an easement encumbering such land, made after May 12, 1994.

In the case of a gift-in-kind, the amount of the gift generally corresponds to the fair market value of the donated property. However, for gifts of works of art to a Québec museum after March 14, 2000, the amount used in the calculation of the tax credit for gifts is equal to the total of the amount representing the fair market value of the work of art (or of the amount deemed to be the fair market value) and 25% of such amount.

However, the amount of eligible charitable donations may not exceed, during a taxation year beginning before January 1, 1998, 20% of the corporation's income for such year. For a taxation year beginning after December 31, 1997, the 20% limit on the corporation's income rises to 75% of such income and may even reach 100% when the purpose of such gift is related to the mission of the donee.

Similarly, to qualify as an eligible gift, the amount of a gift to the Crown, after March 31, 1998, cannot exceed 75% of the corporation's income for the year in which the gift is made. This limit may reach 100% of the corporation's income when the purpose of such gift is related to the mission of the donee.

These measures are designed to encourage the funding of charities and cultural institutions and organizations, and are intended to stimulate donations of works of art and of property with heritage or ecological value.

- **Deductibility of countervailing and antidumping duties (1998)**

In accordance with the rules of the World Trade Organization, countervailing and antidumping duties can be imposed on a country to offset losses caused by imports of subsidized or under-valued goods. Consequently, taxpayers may have to pay such duties to export their products. The March 31, 1998 Budget Speech announced the incorporation into Québec's tax legislation of a federal measure stipulating that cash disbursements made to pay such duties are deductible from income in the year in which they are paid, even if they can be refunded, in whole or in part, in a subsequent year. The refunds or other amounts subsequently received, such as interest, are included in income in the year they are received.

The tax expenditure corresponds to the relief allowed taxpayers by authorizing them to deduct such contingent expenses from their earnings when they are paid, and not when the exact amount of the duties, if any, is determined. The tax expenditure is positive or negative depending on the amount of the countervailing duties paid or recovered by taxpayers during the year.

- **Deductibility of allowances for earthquakes (1998)**

In general, the income of an insurance company is calculated like that of any other company. However, special rules sometimes apply, for instance concerning amounts that may be deducted as allowances in relation to insurance.

The March 31, 1998 Budget Speech announced that allowances constituted in accordance with the guideline on sound practices applicable to commitments relating to earthquakes issued by the Inspector General of Financial Institutions of Québec, would be allowable as a deduction in calculating the income of an insurance company.

This measure is designed to support insurance companies which henceforth must make provision to guarantee that they have sufficient financial resources to cover losses caused by earthquakes when they occur.

– **Tax credits**

- **Refundable tax credits for scientific research and experimental development (R&D) (1983)**

Various refundable tax credits are provided for R&D. These tax credits amount to:

- 20% on the salaries of researchers (40% of the first $2 000 000 of annual salaries in the case of corporations with assets of less than $25 million; the 1996-1997 Budget Speech introduced a linear reduction in the rate of the 40% tax credit for corporations with assets between $25 and $50 million);

- 40% of the eligible expenditure, for a university research contract, or a contract concluded with an eligible public research centre or with a research consortium;

- 40% for a precompetitive research project, a catalyst project or an environmental technology innovation project;

- 40% of dues or contributions paid to a research consortium.

The purpose of these measures is to stimulate R&D in Québec, in terms of both human capital and more intense cooperation between business, universities and research centres.

- **Super-deductions for R&D (1999)**

For taxation years of corporations beginning after June 30, 1999 and before March 1, 2000, corporations otherwise eligible for the refundable tax credits for R&D may elect to forego them in favour of super-deductions in calculating their income. In general, the rates of the super-deductions are 460% for corporations with assets of less than $25 million. This rate declines linearly for corporations with assets between $25 and $50 million, reaching 230% for those with assets of $50 million or more. Rates are also 460% for university research contracts (or contracts with an eligible public research centre or a research consortium), precompetitive research and contributions or dues payable to a research consortium.

The super-deduction election can apply to all or part of the amount used as the basis for calculating a refundable tax credit and irrevocably replaces the entitlement to any of the refundable tax credits to which the corporation would have been entitled.

This measure is designed to optimize the tax benefits relating to R&D activities carried out in Québec.

However, in the February 28, 2000 budget, the federal government announced amendments to the federal tax legislation to tax the value of a benefit arising from a provincial super-deduction for R&D. Accordingly, the purpose of Québec's super-deductions for R&D no longer exists. Consequently, super-deductions for R&D have been withdrawn for taxation years of corporations beginning after February 29, 2000.

- **Refundable tax credit based on the increase in R&D expenditures (1999)**

A corporation otherwise entitled to the refundable tax credit on R&D salaries at 40% may, for taxation years beginning after June 30, 1999 and before July 1, 2004, claim a refundable tax credit based on the increase in all R&D expenditures used as a basis for calculating Québec refundable tax credits for R&D, made by the corporation in a taxation year, compared with the average of all such expenditures made by the corporation during its three preceding taxation years.

The rate of this tax credit is 15%. In addition, a corporation can elect, for a taxation year beginning before March 1, 2000, to claim an additional super-deduction at a rate of 190%, in place of this tax credit.

The purpose of this measure is to provide more tax assistance to small and medium-size enterprises that allocate more resources to increasing their R&D activities.

- **Refundable tax credit for technology adaptation services (1999)**

The March 9, 1999 Budget Speech introduced a two-part refundable tax credit for corporations with assets of less than $25 million, to support them in gathering and processing strategic information, as well as in their research and innovation cooperation efforts.

This tax credit is equal to 40% of certain expenditures incurred with an eligible business watch centre, an eligible liaison and transfer centre or an eligible technology transfer centre, as the case may be. These expenditures include 80% of fees relating to watch or liaison or transfer services provided by such centres and the amount of subscription fees for products or services they offer.

This measure applies to expenditures incurred with such centres after March 9, 1999.

- **Refundable tax credit for design (1994)**

The refundable tax credit for design has two components:

- a refundable tax credit granted under a contract with a design consultant: credit of 40% or 20% (depending on whether or not the corporation qualifies as an SME) of the cost of an outside consulting contract relating to design activities;

- a refundable tax credit for design carried out by the corporation in-house in the fashion and furnishings sector: credit of 40% or 20% (depending on whether or not the corporation qualifies as an SME) of salaries incurred for designers it employs.

Note that the 40% rate available to SMEs declines linearly for corporations with assets between $25 million and $50 million.

Also, to receive this tax credit, eligibility certificates must be obtained from the ministère de l'Industrie et du Commerce for eligible corporations and recognized designers.

This tax credit is designed to support and accelerate the innovation efforts of a company that has decided to pursue the design function to compete more effectively.

- **Refundable tax credit for on-the-job training periods (1994)**

A company that accepts a student or an apprentice for an eligible on-the-job training period is entitled to a refundable tax credit of 40% (20% in the case of unincorporated businesses), regardless of the size of the company. The training expenditures eligible for this tax credit consist of the wages the company pays to the interns or apprentices it accepts and the wages paid to employees who supervise the training period.

This tax credit is limited to $200 per week per intern, and to $250 per week per apprentice ($200 for apprenticeship training periods beginning after April 1, 1998). In addition, the number of hours allocated to support work by the training period superviser cannot exceed ten hours per week per intern, or twenty hours per week per apprentice (ten hours per week for apprenticeship training periods beginning after April 1, 1998), as the case may be.

An additional component, called "Stage Québec", was introduced in the March 29, 2001 Budget Speech. The purpose of this new component is to allow access to the tax credit for on-the-job training periods for training periods carried out by students enrolled in a graduate university education program.

The tax credit for on-the-job training periods is designed to encourage companies to accept interns and seeks to promote the improvement of professional qualifications of young people.

- **Refundable tax credit for training (1990)**

Corporations that carried on a business in Québec could claim a refundable tax credit equal to 20% or 40% of the amount of most of their eligible training expenditures, including salaries paid to their employees during training. The higher rate of 40% applied to SMEs.

Following the introduction of the *Act to foster the development of manpower training*, which stipulates that companies are required to allocate 1% of their payroll each year to eligible training expenditures, this tax credit was gradually eliminated from 1996 to 1998 and no longer exists since January 1, 1999.

This measure was designed to bolster manpower training by encouraging companies to invest in human capital.

- **Refundable tax credit for job creation (1997)**

For calendar years 1997 and 1998, a Québec employer who created jobs could generally claim a reduction in payroll taxes regarding the jobs so created. This reduction took the form of a refundable tax credit.

Briefly, this tax credit was equal to $1 200 for each new full-time job created during one of these calendar years, by an employer whose contributions to the Health Services Fund (HSF) had risen during such year. It could reach a maximum of $36 000, for a calendar year, representing the creation of 30 full-time jobs.

More specifically, for a job held by an employee to qualify as a full-time job, for a calendar year, such employee had to work at least 26 hours per week, for at least 40 weeks ending in such calendar year.

This tax credit was withdrawn for a calendar year following 1998. However, the March 9, 1999 Budget Speech introduced transition rules, applicable for calendar year 1999, to recognize the fact that certain employers had undertaken significant job creation efforts prior to the announcement of the withdrawal of this tax credit.

This tax credit was designed to bolster the creation of full-time jobs.

- **Refundable tax credit for Québec film and television production (1991)**

The refundable tax credit for Québec film and television production covers the labour expenditures incurred by a corporation in relation to the production of a "Québec film", this expression also covering variety and certain magazine shows. Since January 1, 2000, closed-captioning for the hearing impaired has been compulsory for a Québec film intended for broadcast in Québec.

As of September 1, 2001, the maximum amount of the tax credit that may be granted in relation to a production or a series, was increased from 15% to 16.67% of production expenses. This increase results from changes made to the components of the production expenses of a film for the purposes of the tax credit, and is intended solely to maintain the same level of tax assistance. To do so, the limit based on production expenses was raised from 45% to 50%. Accordingly, for certain French-language feature films and certain documentaries, the maximum amount of the tax credit that may be granted rose from 20.25% to 22.5% of production expenses. In all other cases, the amount of the tax credit is limited to $2.5 million per production or per series.

Previously reserved for independent producers, the tax credit was made available to private broadcasters in 1998. Apart from certain exceptions, the volume of production which thus became eligible for the tax credit as well as the refundable tax credit for film or television production services was limited to $20 million per year, for five years.

The tax credit for Québec film and television production is designed to support the production of films and television shows by Québec businesses.

- **Increase in tax assistance for special effects and computer animation (1998)**

Labour expenditures, other than those relating to certain French-language feature films and certain documentaries, relating to the execution of special effects or computer animation for use in an eligible film or television production, give rise to an increase in the rate of the tax credit applicable to such expenditures. Accordingly, assuming that the labour expenditures eligible for the increased rate account for 50% of production expenses, the effective rate of the credit rises from 20.25% to 22.5% of production expenses.

- **Increase in tax assistance for regional film and television productions (1999)**

Apart from those made by private broadcasters, regional film and television productions otherwise eligible for the tax credit are also eligible for an increased tax credit. This increase takes the form of an increase in the rate of the credit applicable to certain labour expenditures. Accordingly, when the various conditions are satisfied, the effective rate of the tax credit rises from 16.67% or 22.5% of production expenses, as the case may be, to a maximum of 27.75% of production expenses. Labour expenditures eligible for this increase are exclusively expenditures that are directly attributable to services provided in Québec, outside the Montréal region.

- **Refundable tax credit for film and television production services (1998)**

The refundable tax credit for film and television production services covers Québec labour expenditures attributable to the various stages of production or execution of a foreign production or a production which does not satisfy Québec content criteria giving rise to the refundable tax credit for Québec film or television production.

The amount of the tax credit is equivalent to 11% of eligible labour expenditures. Accordingly, assuming eligible labour expenditures account for 60% of production costs, the effective rate of the tax credit is 6.6% of the cost of the production.

In the same way and with the same restrictions and obligations as regarding the refundable tax credit for Québec film and television production, private broadcasters are eligible for this tax credit.

- **Increased tax assistance for special effects and computer animation (1998)**

In the same way as in the case of the refundable tax credit for Québec film and television production, labour expenditures eligible for the tax credit relating to the creation of special effects or computer animation for use in an eligible film or television production give rise to a rise in the applicable rate of the tax credit. This rise consists of an additional rate of 20% of eligible labour expenditures. Accordingly, under the same assumption that the labour expenditures eligible for the increased rate account for 60% of production costs, the effective rate of the credit rises from 6.6% to 18.6% of production costs in some cases, and from 0% to 12% of production costs in cases of small-budget productions that do not satisfy the minimum cost rules for eligibility for this tax credit.

The refundable tax credit for film or television production services is designed to stimulate job creation by encouraging foreign producers to film their productions in Québec.

- **Refundable tax credit for dubbing (1997)**

The refundable tax credit for dubbing covers labour expenditures relating to certain services supplied in Québec and inherent in the process of dubbing film or television productions. In general, productions eligible for this tax credit are the same as those eligible for the refundable tax credit for Québec film and television production, without the Québec content requirements.

The amount of this tax credit is equivalent to 33 1/3% of the amount of the eligible labour expenditures, which are limited to 40.5% of the consideration paid for the execution of the dubbing contract, excluding the GST and the QST.

The purpose of this measure is to support dubbing activities carried out in Québec and to enable companies in this sector to expand their market.

- **Refundable tax credit for sound recording production (1999)**

The refundable tax credit for sound recording production covers labour expenditures attributable to services supplied in Québec for the production of eligible sound recordings. In general, sound recordings eligible for this tax credit are those with significant Québec content and for which SODEC has issued an eligibility certificate.

The amount of this tax credit is equivalent to 33 1/3% of the amount of the eligible labour expenditures, which are limited to 45% of the eligible production expenses of the sound recording. Tax assistance can accordingly reach 15% of the production expenses of the sound recording. In addition, the tax credit, for an eligible sound recording, may in no event exceed $50 000.

The purpose of this tax credit is to encourage the Québec recording industry, reduce production costs assumed by businesses and sustain job creation.

- **Refundable tax credit for the production of shows (1999)**

The refundable tax credit for the production of shows covers labour expenditures attributable to services supplied for the production of eligible shows. In general, shows eligible for this tax credit are those with a significant Québec content and for which SODEC has issued an eligibility certificate.

Initially, the tax credit for the production of shows essentially covered musicals. However, since July 5, 2001, the production of a drama, comedy, mime or magic show is also covered.

The amount of this tax credit is equivalent to 33 1/3% of the amount of the eligible labour expenditures, which are limited to 45% of the eligible production expenses of the show. Tax assistance can accordingly reach 15% of the production expenses of the show. In addition, the tax credit, for an eligible show, may in no event exceed $300 000.

This tax credit is designed to encourage consolidation in the Québec show business industry, enable the production of shows with larger budgets and support job creation.

- **Refundable tax credit for the creation of an eligible digital production (2000)**

On October 6, 2000, the government implemented a refundable tax credit for the creation of an eligible digital production.

This refundable tax credit has two components and enables an eligible corporation that creates an eligible digital production in Québec to receive, for a taxation year, a refundable tax credit corresponding, for the first component, to 40% of eligible labour expenditures it incurs during such year and, for the second component, 40% of the capital cost or expense of leasing eligible equipment acquired or leased during such year. However, the tax credit is capped, for an eligible corporation, at $8 million for the entire period regarding which such eligible expenditures may be incurred.

This tax credit applies regarding a digital production of an eligible corporation performed in public in Québec for the first time after October 6, 2000 and for which the corporation submitted an eligibility certificate application to Investissement Québec after such date and before January 1, 2003, in relation to eligible labour expenditures incurred by the corporation before January 1, 2003, to eligible equipment acquired by the corporation before January 1, 2003, and to rent paid by the corporation in relation to the lease of eligible equipment attributable to a lease period prior to January 1, 2003.

An eligible digital production of a corporation means a digital production created in Québec and regarding which the corporation has obtained an annual eligibility certificate from Investissement Québec stating that the applicable criteria have been satisfied.

This tax credit is designed to support the creation, in Québec, of productions making use of specific technology and requiring a major investment, such productions helping to raise the profile of Québec know-how.

- **Refundable tax credit for book publishing (2000)**

The refundable tax credit for book publishing covers the labour expenditures attributable to the preparation and printing of an eligible book or an eligible group of books. In general, an eligible corporation may, under certain conditions, benefit from a tax credit providing assistance ranging between 10% and 20% of the total preparation and printing expenses of an eligible book or a book that is part of an eligible group of books.

To be eligible, a book, in particular, must be the work of a Québec author, and a certain percentage of the preparation and printing expenses must be paid to Quebecers.

This tax credit was implemented to further support book publishing activities, thus enabling Québec publishers to develop foreign markets for Québec productions, to produce major publishing projects and develop the translation market.

- **Refundable tax credit for the maintenance of racehorses (2000)**

This refundable tax credit was introduced to help restore the financial situation of the racehorse industry in Québec. In general, this tax credit covers certain expenditures incurred to raise young horses for racing and is intended for taxpayers that own them.

Eligible expenditures, that must be incurred after June 29, 2000 but before January 1, 2004, are limited to an annual amount of $12 000 per eligible animal. The rate of the tax credit, applicable to eligible expenditures, is 30%, giving a maximum tax credit of $3 600 per eligible animal per year.

- **Refundable tax credit for shipbuilding or conversion (1996 and 1997)**

The 1996-1997 Budget Speech introduced a tax credit for certain construction expenses incurred by a corporation with an establishment in Québec and which carries on a shipbuilding business in Québec.

The rate of the tax credit is 50% and applies mainly to wages incurred with individuals employed by the corporation who work directly on the construction of an eligible ship. The ministère de l'Industrie et du Commerce must have issued an eligibility certificate for the construction project for such ship. In particular, the ship must have a gross tonnage of at least fifty tons. The amount of the tax credit may not exceed 20% of the cost of construction of the ship.

In 1997, another component was added to this tax credit, to admit the first three units of a series of ships built from similar plans and specifications as those of a prototype ship, but at declining rates of tax credit. In addition, a tax credit was also introduced for the conversion of ships, whose rate is also 50%. Eligible conversion expenditures include the same items as those accepted for the purposes of the tax credit for shipbuilding.

These measures are designed to encourage shipbuilding and conversion in Québec.

- **Refundable tax credit for job creation in the clothing and footwear industry (1998)**

To stimulate the competitiveness of Québec businesses in the clothing and footwear industry and encourage them not to make use of unreported work, a temporary refundable tax credit was introduced for calendar years 1998 to 2001, for the increase in payroll attributable to the production employees of an employer in this industry. The rate of the tax credit, for a calendar year, is 20% of the amount of such increase in payroll. The tax credit is geared both for corporations and individuals.

- **Refundable tax credit relating to the apprenticeship period of young specialized employees of an IFC (1998)**

The refundable tax credit relating to the apprenticeship period of young specialized employees of an IFC is granted to operators of an IFC that employs eligible specialized employees, in relation to the salaries paid to such employees for a maximum period of three years. Briefly, an eligible specialized employee is an employee who, at the time an eligibility certificate regarding him is first issued by the Minister of Finance, had earned a diploma no more than four years previously in a discipline relevant to international financial transactions, and at least 75% of whose duties are related to carrying out eligible international financial transactions. This tax credit applies in relation to employees regarding whom the operator of the IFC holds an eligibility certificate issued by the Minister of Finance before July 1, 2003.

The amount of the tax credit is equivalent to 40% of the eligible salary paid to the eligible specialized employee. Furthermore, in the March 29, 2001 Budget Speech, the amount of the cap applicable to eligible salary was raised from $62 500 to $75 000, calculated on an annual basis, so that the maximum tax credit, regarding an eligible specialized employee, rose from $25 000 to $30 000 on an annual basis.

This tax credit is designed to promote the development of a new generation of skilled professionals in the field of international transactions, and to offset part of the costs associated with the period of apprenticeship of young employees.

- **Refundable tax credit for IFC canvassing expenses (1998)**

The refundable tax credit for IFC canvassing expenses covers reasonable expenditures relating to marketing activities carried out with persons who are not residents of Canada and which enable the operator of an IFC to bring new eligible international financial transactions to Montréal.

Briefly, the amount of the tax credit, for a taxation year, is equivalent to 50% of the amount of the eligible canvassing expenses incurred by the operator of the IFC during such year and the two preceding years, but prior to January 1, 2002. However, the amount of the tax credit is limited to 25% of the eligible fees the operator of the IFC earns, for the year, from carrying out such new international financial transactions. In addition, the amount of the tax credit, for a taxation year, may not exceed $75 000 on an annual basis.

The refundable tax credit for IFC canvassing expenses is designed to help companies develop new markets and recognize the contibution of marketing to the development of international financial transactions in Montréal.

- **Refundable tax credit relating to canvassing expenditures for a foreign investment fund (2000)**

In the March 14, 2000 Budget Speech, the refundable tax credit regarding canvassing expenditures of an IFC was improved by adding a second component covering canvassing expenditures incurred by the operator of an IFC with a promoter of foreign investment funds, for the purpose of obtaining a foreign investment fund management mandate, enabling new eligible international financial transactions to be brought to Montréal.

Briefly, the rules applicable to this second component are the same as those that apply to the first. More specifically, the amount of the tax credit, for a taxation year, is equal to 50% of the amount of eligible canvassing expenditures incurred by the operator of the IFC during this year and the two preceding years, but before January 1, 2002. Furthermore, the amount of the tax credit is limited to 25% of the eligible fees the operator of the IFC earns, for the year, from carrying out new international financial transactions.

However, special rules limit the overall annual maximum amount an operator of an IFC may obtain under this second component to $750 000, with an annual limit of $150 000 applicable individually regarding each foreign investment fund. Furthermore, a cumulative limit of $300 000 applicable individually regarding each foreign investment fund is also stipulated.

The refundable tax credit relating to canvassing expenditures for a foreign investment fund is designed to help companies develop new markets by obtaining mandates to manage foreign investment funds.

- **Refundable tax credit for the creation of investment funds (1998)**

Tax benefits have been implemented to support the development of new investment funds administered and managed in Québec. The tax benefits are granted to eligible corporations that create such funds after December 31, 1997 and before April 1, 2001.

This tax assistance takes the form of a refundable tax credit for eligible start-up expenditures incurred in relation to the creation of eligible investment funds, as well as a tax exemption for the income earned from the administration and management of such funds.[10]

More specifically, a corporation may claim a refundable tax credit for an amount, not exceeding $250 000, of 50% of the eligible start-up expenditures incurred for such fund. Briefly, eligible start-up expenditures are expenditures incurred by an eligible corporation and attributable to the start-up and establishment of an investment fund, for a period of two years.

However, the March 14, 2000 Budget Speech introduced a change that sets a limit of $1 million on the amount of the refundable tax credit for the creation of investment funds an eligible corporation, as well as the eligible corporations with which it is associated, can claim for a taxation year.

By stimulating the creation and management of investment funds in Québec, this measure seeks to develop Québec expertise in portfolio management and the development of financial products.

- **Refundable tax credit for communications between corporations and investors (2000)**

A corporation that has a class of its shares listed on an exchange and which wishes to obtain financing by means of a public offering or to disclose the details of a major development that may affect the value of its stock, must be in a position to communicate effectively with financial market professionals and investors. One of the preferred methods used by corporations for such purposes involves organizing a promotional tour (road show) enabling direct and preferential contact between the corporation and investors.

[10] This tax expenditure is considered in the sub-section "Reduced tax rates and exemptions".

To encourage Québec corporations to participate more actively in this type of activity, tax assistance is granted to public corporations that, briefly, have a market capitalization or asset value of less than $1 billion, and more than half of whose salaries are paid to employees in Québec. In general, such tax assistance covers expenditures incurred by an eligible corporation in the course of road shows staged for financial market professionals and investors.

More particularly, such tax assistance consists of a refundable tax credit and is granted, for a taxation year, to an eligible corporation that, during such year, incurs eligible communication expenditures, such as travel and lodging expenses, expenses to rent auditoriums and equipment, expenses to prepare material or advertising, as well as consultants' fees, in relation to an eligible road show. The maximum amount of the tax credit an eligible corporation may receive, for a taxation year, is limited to $40 000 calculated on an annual basis.

This tax credit is designed to encourage Québec corporations to participate in events such as road shows to improve the valuation of their listed securities. This measure applies regarding eligible communications expenditures incurred after June 29, 2000 and before July 1, 2003.

- **Refundable tax credit for fund managers (1998)**

The March 31, 1998 Budget Speech introduced a refundable tax credit relating to the apprenticeship period of fund managers. This tax credit can reach $30 000 per year, for a maximum of three years, equal to 40% of the salary paid to the eligible fund manager.

This measure applies regarding the eligible salary paid by an eligible portfolio management company after March 31, 1998 to eligible fund managers for whom an eligibility certificate is issued after such date and before January 1, 2003.

Briefly, an eligible fund manager is an fund manager who, at the time an eligibility certificate regarding him is first issued by the Minister of Finance, had earned a diploma no more than four years previously in a relevant discipline.

This measure is designed to encourage portfolio management activities in Québec and the hiring of young graduates.

- **Tax credit for hiring junior financial analysts specializing in the securities of Québec corporations (2000)**

Briefly, a corporation that carries on a business as an unrestricted practice investment adviser or broker registered with the Commission des valeurs mobilières du Québec (CVMQ) and which, during a taxation year, employs an eligible junior financial analyst, may claim a tax credit in relation to the eligible salary paid to such financial analyst. This tax credit is equal to 40% of the salary paid to an eligible junior financial analyst, and may reach $30 000 per year, for a maximum of three years.

Generally speaking, an eligible junior financial analyst is an individual who devotes more than 75% of his work time to financial analysis activities, which focus mainly on the securities of Québec corporations, and who, at the time an eligibility certificate regarding him is first issued by the Minister of Finance, hadearned a diploma no more than four years previously in a discipline relevant to equity securities analysis.

The tax credit applies regarding the eligible salary paid by an eligible corporation after June 29, 2000, to eligible junior financial analysts for whom an eligibility certificate is issued by the Minister of Finance after that day and before July 1, 2003.

By encouraging broader coverage of Québec corporations by financial analysts, this measure seeks to contribute to improving the valuation of the equity securities of these corporations, while encouraging the training and development of young financial analysts in Québec.

- **Tax credit for hiring junior financial analysts specializing in financial derivatives (2001)**

Briefly, a corporation that, during a taxation year, employs a junior financial analyst specializing in financial derivatives (FDs), can claim a tax credit in relation to the eligible salary paid to such an eligible financial analyst. This tax credit is equal to 40% of the salary paid to an eligible junior financial analyst, and may reach $30 000 a year, for a maximum of three years.

Generally speaking, an eligible junior financial analyst is an individual who devotes more than 75% of his work time to financial analysis activities focusing on FDs or to securities advisory activities or securities dealer activities specializing in FDs and who, at the time an eligibility certificate regarding him is first issued by the Minister of Finance, had earned a diploma no more than four years previously in a relevant discipline.

The tax credit applies regarding the eligible salary paid by an eligible corporation after April 9, 2001, to eligible junior financial analysts for whom an eligibility certificate is issued by the Minister of Finance after that day and before July 1, 2003.

This measure is designed to foster the development in Québec of leading expertise in the field of FDs, while encouraging the hiring, training and development of young financial analysts specializing in FDs.

- **Credit fostering the participation of investment dealers on the Nasdaq stock market (2000)**

Briefly, a corporation that is registered with the Commission des valeurs mobilières du Québec (CVMQ) as an investment dealer, and is also a member corporation of the American organization "National Association of Securities Dealers (NASD)" authorized to trade in securities listed on the Nasdaq stock market as an orders entry broker or a market maker broker, can receive tax assistance for the costs relating to its membership in the Nasdaq Canada stock market.

Briefly, this tax assistance consists of a refundable tax credit and has three components, the first covering administrative expenses, the second covering the acquisition or leasing of technological equipment, and the third covering the hiring and training of personnel.

The tax credit an eligible corporation may receive, for a taxation year, is equal to 50% of the amount of eligible expenditures it incurs during such year and before January 1, 2002, under one or more of the components of the tax credit. However, the maximum cumulative amount of the tax credit an eligible corporation may receive is limited to $25 000 for the first component, $100 000 for the second, and $50 000 for the third.

This measure seeks to encourage Québec securities brokers to participate on the Nasdaq Canada stock market by reducing the initial cost relating to their membership in this new Québec stock market.

- **Refundable tax credit for railway companies (1998)**

The refundable tax credit for railway companies covers the property taxes relating to railroad rights-of-way, i.e. the base of the railroad, including ditches and embankments, paid during the year by the operator of a railway business in Québec and who maintains an establishment in Québec.

The tax credit is equivalent to 75% of the amount of eligible property taxes paid to a municipality under the *Act respecting Municipal Taxation* or to a school board under the *Education Act*.

The refundable tax credit for railway companies is designed to improve the competitive position of railway companies, without affecting the finances of local governments.

- **Refundable tax credit for the production of multimedia titles (1996)**

This refundable tax credit depends on the eligible labour expenditures incurred in the production of eligible multimedia titles.

The basic rate of the tax credit is 35%, and rises to 40% when the title is intended for mass market commercialization. This 40% rate can be increased to 50% if the title is available in French.

This tax credit has two components, a general component and a component applicable to corporations whose activities consist almost exclusively in producing multimedia titles in an establishment in Québec.

Investissement Québec is responsible for issuing certificates for multimedia titles eligible for the general component, as well as certificates relative to corporations eligible for the specialized component.

The purpose of this measure is to support the production of multimedia titles and to enable Québec culture and communications businesses to compete more effectively against international businesses in this field.

- **Refundable tax credits for corporations carrying out an innovative project in an information technology development centre (1997)**

A corporation that carries out an innovative project in a Centre de développement des technologies de l'information (CDTI), or information technology development centre, which includes the Centre de développement des biotechnologies de Laval, can claim a package of tax benefits. The same tax benefits are also available to a corporation that carries out an innovative project in a designated building of a CNE, or new technology centre.

More specifically, such a corprotion can claim, in addition to a five-year tax holiday, a refundable tax credit for wages paid to its eligible employees as well as a refundable tax credit for the acquisition or lease of eligible specialized equipment.

The amount of the tax credit on wages is equal, for a taxation year, to 40% of the wages incurred during such year and paid to eligible employees, up to a maximum tax credit of $15 000 per employee, on an annual basis.

The amount of the tax credit was increased for one year, regarding wages paid from June 16, 1998 to June 15, 1999. The rate of the tax credit was 60% while the maximum tax credit was $25 000 per employee, on an annual basis.

The amount of the tax credit for eligible specialized equipment is equal to 40% of the capital cost of the eligible specialized equipment acquired during the first three years of the tax holiday of the corporation and to 40% of rent paid, for eligible specialized equipment, during the five-year tax holiday.

In addition, a corporation that carries out an innovative project in the biotechnology sector in the Centre de développement des biotechnologies de Laval can claim a refundable tax credit equal to 40% of the amount of eligible rental expenses relating to short-term rental, during the five-year tax tax holiday it enjoys, of eligible specialized installations.

This fiscal measure is administered by Investissement Québec, which oversees the achievement of the government's objectives and issues the eligibility certificates necessary to claim these tax credits.

- **Refundable tax credit for corporations established in the Cité du multimédia (1998)**

The Cité du multimédia, located near Montréal's Old Port, was created on June 15, 1998. Briefly, eligible corporations that move into the Cité du multimédia can claim, for the period from June 16, 1998 to December 31, 2010, a refundable tax credit for eligible wages incurred and paid to eligible employees to carry out eligible activities in designated buildings in Montréal.

The amount of the refundable tax credit is equal, for a taxation year, to 40% of eligible wages incurred during such year and paid to eligible employees, up to a maximum tax credit of $15 000 per employee, on an annual basis.

For the period from June 16, 1998 to June 15, 1999, the rate of the tax credit was 60% and the maximum tax credit was $25 000 per employee, on an annual basis.

Since the March 14, 2000 Budget Speech, a tax holiday similar to the one available to a foreign specialist working in a CDTI has been available to foreign specialists working for a corporation operating a business in the Cité du multimédia. Accordingly, such a specialist can claim, for a period of five years, an exemption from tax on his income from such employment.

These measures are administered by Investissement Québec, which oversees the achievement of the government's objectives and issues the eligibility certificates necessary to claim these tax benefits.

- **Refundable tax credit for corporations established in the Centre national des nouvelles technologies de Québec (1999)**

The Centre national des nouvelles technologies de Québec (CNNTQ), located in downtown Québec City, was created in the March 9, 1999 Budget Speech. Briefly, eligible corporations that move into designated premises of the CNNTQ can claim, for the period from March 10, 1999 to December 31, 2010, a refundable tax credit for eligible wages they incur and pay to eligible employees to carry out eligible activities in designated premises of the CNNTQ.

The amount of the refundable tax credit is equal, for a taxation year, to 40% of eligible wages incurred during such year and paid to eligible employees, up to a maximum tax credit of $15 000 per employee, on an annual basis.

Since the March 14, 200 Budget Speech, a tax holiday similar to the one available to a foreign specialist working in a CDTI has been available to foreign specialists working for a corporation operating a business in the CNNTQ. Accordingly, such a specialist can claim, for a period of five years, an exemption from tax on his income from such employment.

These measures are administered by Investissement Québec, which oversees the achievement of the government’s objectives and issues the eligibility certificates necessary to claim these tax benefits.

- **Refundable tax credit for corporations established in a new economy centre (1999)**

The Carrefours de la nouvelle économie (CNE), or new economy centres, were created in the March 9, 1999 Budget Speech.

Corporations that carry out eligible activities in a designated building of a CNE can claim either the tax assistance specifically applicable to the CNEs, or that applicable to the CDTIs if they carry out an innovative project therein. Corporations that do not carry out an innovative project can, for the period from March 10, 1999 to December 31, 2010, claim a refundable tax credit for eligible wages they incur and pay to eligible employees to carry out eligible activities in a specified building of a CNE. The rate of this tax credit is 40%, for a maximum tax credit of $15 000 per eligible employee, on an annual basis.

Since the March 14, 2000 Budget Speech, a tax holiday similar to the one available to a foreign specialist working in a CDTI has been available to foreign specialists working for a corporation operating a business in a CNE. Accordingly, such a specialist can claim, for a period of five years, an exemption from tax on his income from such employment.

These measures are administered by Investissement Québec, which oversees the achievement of the government's objectives and issues the eligibility certificates necessary to claim these tax benefits.

- **Refundable tax credit for corporations established in E-Commerce Place (2000)**

E-Commerce Place, located in downtown Montréal, was created on May 11, 2000. Briefly, eligible corporations that move into E-Commerce Place can claim, for the period from May 12, 2000 to December 31, 2010, a refundable tax credit regarding the eligible salaries they incur and pay to eligible employees to carry out eligible activities.

The rate of this tax credit is generally 25% but may be reduced as of the sixth year of operation of an eligible corporation in E-Commerce Place if the eligible corporation has not created a minimum number of jobs in Québec.

The amount of the tax credit an eligible corporation may claim, for a taxation year, regarding an eligible salary paid to an eligible employee for such year is limited to $10 000 per eligible employee. Accordingly, for the purposes of this tax credit, the eligible salary of an eligible employee is limited to $40 000, calculated on an annual basis.

The purpose of this tax credit is to support the creation of jobs in the field of e-commerce operation and development.

- **Refundable tax credit for the Technopôle Angus (2000)**

A refundable tax credit was introduced, for a period of four calendar years beginning January 1, 2000, regarding the increase in payroll attributable to production or commercialization employees of an eligible corporation operating either in the field of manufacturing or processing goods, or in the environmental field. The tax assistance is granted to companies that move into the site of the former Angus shops, located in the city of Montréal.

The rate of this refundable tax credit, for a given calendar year, is 40%. Generally speaking, the rate applies to the amount by which the salaries paid by the eligible corporation to its eligible employees for the calendar year exceeds the salaries paid to the eligible employees during the preceding calendar year. This measure applies regarding calendar years 2000 to 2003.

This measure is designed to offset the costs relating to the apprenticeship period of new employees hired by businesses located in the Technopôle Angus.

- **Refundable tax credit to encourage Québec SMEs to integrate e-commerce solutions (2000)**

In the March 14, 2000 Budget Speech, the government implemented a refundable tax credit to encourage Québec SMEs to integrate e-commerce solutions.

Briefly, an eligible corporation can claim a refundable tax credit equal to 40% of the eligible expenditures it incurs regarding an eligible e-commerce solution. However, the tax credit is capped, for for an eligible corporation, at $40 000, for the entire period, described below, regarding which eligible expenditures may be incurred regarding an eligible e-commerce solution.

In this regard, the expenditures relating to the implementation of an eligible e-commerce solution must, subject to certain transition rules, be incurred by a corporation, or by a partnership as the case may be, after March 14, 2000 and before April 1, 2002.

In addition, an e-commerce solution must satisfy a set of conditions, by March 31, 2003 at the latest, to qualify as an eligible e-commerce solution.

- **Refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain (2001)**

A refundable tax credit was introduced, for a period of five calendar years beginning January 1, 2001, regarding the increase in payroll attributable to production or commercialization employees of an eligible corporation operating in the biotechnology and human health field. The tax assistance is granted to companies that move into the Parc scientifique et de haute technologie de Laval.

The rate of this refundable tax credit, regarding a given calendar year, is 40%. Generally speaking, the rate applies to the amount by which the salaries paid by the eligible corporation to its eligible employees for the calendar year exceeds the salaries paid to the eligible employees during the preceding calendar year. This measure applies regarding calendar years 2001 to 2005.

This measure is designed to offset the costs relating to the apprenticeship period of new employees hired by businesses operating in the biotechnology and human health field, in the Parc scientifique et de haute technologie de Laval.

- **Refundable tax credit for the acquisition of less-polluting dry cleaning equipment (1997)**

A refundable tax credit, whose rate depends on the gross income of the dry cleaning business and the type of equipment acquired, was introduced in 1997. For equipment that does not utilize perchloroethylene, the rates of the tax credit were 20% or 15%, depending on whether or not the gross income of the business is less than $250 000. For equipment using less perchloroethylene, the rates of the tax credit were 15% or 10%, depending on whether or not the gross income of the business is less than $250 000.

However, regarding equipment acquired after March 25, 1997 and prior to December 19, 1997, the rates of the tax credit were double those mentioned above, i.e. 40% and 30% in the case of equipment that does not utilize perchloroethylene, or 30% and 20% in the case of equipment using less perchloroethylene.

This tax credit applied to acquisition expenses incurred before January 1, 2000.

This tax credit was designed to support and accelerate the modernization of dry cleaning businesses and assist them to adopt less polluting technology.

- **Refundable tax credit relative to the declaration of tips (1997)**

The March 25, 1997 Budget Speech introduced various measures to improve and restore order to the situation regarding the declaration of tips in the restaurant and hotel sector.

Employees who receive tips while carrying out their duties are now required to declare the amount in writing to their employer. In addition, when the amount so declared to the employer, for a pay period, is less than 8% of the employee’s sales subject to tips, for such period, an amount equal to the difference between tips declared to the employer and the amount representing 8% of the employee’s sales subject to tips is attributed to the employee as tips.

In addition, employers are required to pay various charges regarding these tips, but can claim a refundable tax credit for them.

Essentially, the tax credit relative to the declaration of tips corresponds to the portion of employer contributions which is attributable to tips, to the portion of the annual vacation benefit of an employee which is attributable to tips, as well as to the employer contributions payable in relation to such portion of the benefits.

This tax credit seeks to compensate the increase in charges payable by an employer because of the new measures relating to tips.

- **Refundable tax credit on the wages of eligible employees relating to the Montréal Foreign Trade Zone at Mirabel (1999)**

A corporation that carries on an eligible business within the Montréal Foreign Trade Zone at Mirabel can claim a refundable tax credit for wages paid to eligible employees of such business. Eligible employees are those at least 75% of whose duties consist of work relating to an activity of the eligible business and whose employment contract stipulates at least 26 hours of work per week for a minimum of 40 weeks.

This tax credit corresponds to 40% of wages incurred for an eligible employee before January 1, 2002. However, the tax credit is capped, for such period, at $15 000 per employee, on an annual basis. Concerning the wages incurred for an eligible employee during the period between December 31, 2001 and January 1, 2005, this tax credit will correspond to 30% of such wages. However, the tax credit will be capped, for such period, at $12 000 per employee, on an annual basis. Lastly, concerning the wages incurred for an eligible employee during the period between December 31, 2004 and January 1, 2011, this tax credit will correspond to 20% of such wages. However, the tax credit will be capped, for such period, at $8 000 per employee, on an annual basis.

- **Refundable tax credit for an eligible customs brokerage contract relating to the Montréal Foreign Trade Zone at Mirabel (1999)**

A corporation that carries on an eligible business within the Montréal Foreign Trade Zone at Mirabel can claim a refundable tax credit for fees incurred under an eligible customs brokerage contract, i.e. a contract concluded with a customs broker which is at arm's length with the corporation, concerning services supplied to the corporation, before January 1, 2011, in the course of the activities of the eligible business.

This tax credit corresponds to 40% of the fees incurred, prior to January 1, 2002, for an eligible customs brokerage contract. However, the tax credit is capped, for such period, at $30 000, on an annual basis. Concerning the fees incurred for an eligible customs brokerage contract during the period from December 31, 2001 and January 1, 2005, the tax credit corresponds to 30% of such fees. However, the tax credit is capped, for such period, at $24 000, on an annual basis. Lastly, concerning the fees incurred for an eligible customs brokerage contract during the period from December 31, 2004 and January 1, 2011, the tax credit corresponds to 20% of such fees. However, the tax credit is capped, for such period, at $16 000, on an annual basis.

- **Refundable tax credit for the acquisition or lease of eligible equipment relating to the Montréal Foreign Trade Zone at Mirabel (1999)**

A corporation that carries on an eligible business within the Montréal Foreign Trade Zone at Mirabel can claim a refundable tax credit for eligible equipment used in the course of carying on such business. The expression eligible equipment essentially means equipment which, prior to its acquisition or lease by the corporation, was not used for any purpose nor acquired to be used or leased for any purpose whatsoever, and which must be used wholly or almost wholly in the Mirabel Zone to earn income from an eligible business.

This tax credit corresponds to 25% of the expenses incurred by the corporation to acquire, before January 1, 2011, such eligible equipment. Concerning the lease of eligible equipment, the tax credit corresponds to 25% of the rent paid by the corporation during the eligible lease period designated by the Minister of Finance.

- **Refundable tax credit for the construction of strategic buildings in the Montréal Foreign Trade Zone at Mirabel (2000)**

A corporation that carries on an eligible business within the Montréal Foreign Trade Zone at Mirabel may take advantage of a refundable tax credit for the construction of strategic buildings in the zone. In this regard, the expression strategic building essentially means a building or part of a building that is constructed within the zone, no part of which is used or intended to be used for residential purposes and regarding which the corporation holds an eligibility certificate issued by the Minister of Finance.

Briefly, this tax credit corresponds to 25% of the construction expenses incurred by the corporation regarding a strategic building.

- **Refundable tax credit for the Cité de l'optique (1999)**

A refundable tax credit was introduced, for a period of four calendar years beginning January 1, 1999, for the increase in payroll attributable to production or commercialization employees of an eligible corporation in the optics, photonics or laser sector in the Québec City region.

The rate of this refundable tax credit, for a given calendar year, is 40%. In general, the rate will apply to the amount by which the wages paid by the eligible corporation to its eligible employees for the calendar year exceeds the wages paid to eligible employees during the preceding calendar year.

The purpose of this measure, which applies regarding calendar years 1999 to 2003, is to provide compensation for the costs relating to the apprenticeship period of new employees hired by a corporation operating in the field of optics, photonics or laser sector in the Québec City region.

- **Refundable tax credit for the Vallée de l'aluminium (2000)**

The refundable tax credit for the Vallée de l'aluminium was introduced in the 2000-2001 Budget Speech.

Briefly, this tax credit, which has a 40% rate, is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in the Saguenay–Lac-Saint-Jean administrative region, for five consecutive calendar years. However, to receive this tax credit, an eligible corporation must begin carrying on a certified business in this region no later than during calendar year 2004.

This measure is designed to stimulate, in this region, the manufacturing of finished or semi-finished products from aluminum that has already undergone primary processing, the manufacturing of specialized equipment for aluminum production or aluminum processing companies and the development and recycling of waste and residue resulting from the processing of aluminum.

- **Refundable tax credit for Gaspésie and certain maritime regions of Québec (2000)**

The refundable tax credit for Gaspésie and certain maritime regions of Québec was introduced in 2000.

This tax credit, whose rate is 40%, is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in certain maritime regions of Québec, namely Gaspésie–Îles-de-la-Madeleine, Côte-Nord and the Matane RCM, for five consecutive calendar years. To receive this tax credit, an eligible corporation must begin carrying on a certified business in one of these regions no later than during calendar year 2004.

Generally speaking, this refundable tax credit is allowed for specific activities carried out in the sectors of marine or wind-power resource development, to offset the costs associated with creating or expanding a certified business in these sectors.

- **Refundable tax credit for processing activities in the resource regions (2001)**

The refundable tax credit for processing activities in the resource regions was introduced in the March 29, 2001 Budget Speech.

This refundable tax credit, whose rate is 40%, is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in one of the resource regions of Québec, for five consecutive calendar years. To receive this tax credit, an eligible corporation must begin carrying on a certified business in a resource region no later than during calendar year 2004

In general, to receive this tax credit, a corporation must operate, in a resource region, a business whose activities concern, in particular, the secondary or tertiary processing of wood, metals or food, non-conventional energy production and aquaculture. Activities related to the the manufacturing of finished or semi-finished products from peat, slate or precious stones are also covered by this tax credit.

This measure is designed to encourage economic diversification in resource regions and stimulate the development and growth of businesses. The resource regions consist of the administrative regions of Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine and the RCMs of Antoine-Labelle, Vallée-de-la-Gatineau and Pontiac.

- **Refundable tax credit for resources (2001)**

In the March 29, 2001 Budget Speech, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit.

Accordingly, an eligible corporation that incurs eligible expenses can claim a tax credit of up to 45% of the amount of such eligible expenses.

Briefly, eligible expenses are the expenses incurred by a corporation and attributable either to exploration expenses that, under the flow-through share system, enable an individual to claim a deduction of at least 125%, or to expenses incurred in Québec and related to renewable energy and energy conservation that enable an individual to claim a deduction of 100%.

The basic rate of the tax credit a corporation can claim is 20%. This rate is raised to 40% regarding eligible expenses incurred by a corporation that does not develop a mineral resource of oil or gas well, and is not related to a corporation that develops a mineral resource or oil or gas well. In addition, the rates of 20% and 40% are raised to 25% and 45%, respectively, for eligible expenses incurred by an eligible corporation in the Mid-North or the Far North of Québec. In the specific case of expenses incurred in Québec and relating to renewable energy and energy conservation, a single rate of 40% applies.

In addition, only eligible expenses that have not been foregone for the purposes of the *Taxation Act* under the flow-through share system can enable an eligible corporation to benefit from the new assistance mechanism. Furthermore, the implementation of the new tax credit stipulates a transition period. Accordingly, a corporation may continue to transfer CEE, CDE and COGPE[11] to individuals by foregoing them and issuing flow-through shares since the tax benefits relating to flow-through shares will be maintained regarding shares issued no later than December 31, 2003.

This refundable tax credit applies, subject to a renunciation in favour of an investor under the flow-through share system, regarding eligible expenses incurred after March 29, 2001.

– **Deferrals**

- **Expenses relating to resources (accelerated amortization)**

Canadian exploration expenses (CEE), Canadian development expenses (CDE), Canadian oil and gas property expenses (COGPE), Canadian exploration and development expenses (CEDE) and foreign exploration and development expenses (FEDE) enable the taxpayer to amortize his exploration and development expenses more quickly than accounting rules allow. Only CEE and CDE are dealt with below, because the amounts at issue regarding the other expenses are relatively small. In addition, caution is called for in estimating the total value of these tax expenditures, since mining, oil and gas companies can transfer CEE, CDE and COGPE to individuals by foregoing them and issuing flow-through shares. In Québec, the additional deductions of 25% and 50% for exploration expenses incurred in Québec encourage such transfers by junior exploration companies.

In the March 29, 2001 Budget Speech, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, provision is made for a transition period. Accordingly, a corporation will no longer be able to transfer CEE, CDE and COGPE to individuals by foregoing them and issuing flow-through shares since the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

‣ **Accelerated amortization of Canadian exploration expenses (1974)**

Expenses incurred in prospecting, exploring or searching for minerals, oil or natural gas, or in the development of mineral resources in Canada are deducted at a rate of up to 100% for income tax purposes. These expenses are entered by the taxpayer in a separate account whose balance can be deducted during a subsequent taxation year. This deduction is optional and can be used to create a business loss. These expenses can be carried forward indefinitely.

[11] These acronyms are defined in the following sub-section, ‘‘Expenses relating to resources (accelerated amortization)”.

This 100% amortization is greater than what is suggested by accounting principles and results in a deferral of income tax payable. It is designed to encourage exploration for natural resources in Canada.

- **Accelerated amortization of Canadian development expenses (1974)**

In general, development expenses in the oil and gas sector in Canada are considered Canadian development expenses and are amortized at a rate of 30% of residual value. The development expenses of mining corporations already in commercial production are treated the same way. Those of new mines are treated as Canadian exploration expenses.

These expenses are entered in a separate account and the non-deducted balance of the account need not be used within a set time limit; it can be carried forward indefinitely.

Since accounting principles would suggest amortizing such expenses using the full costing method (capitalize the costs and amortize as the reserves are developed and sold), the amortization rate of 30% constitutes a benefit for corporations which incur such expenses, since exploitation generally lasts at least ten years.

- **Expenses relating to renewable energy and energy conservation in Canada (1997)**

This category of expenses was introduced to allow full deduction of certain costs associated with the development of certain projects relating to renewable energy and projects for which the equipment gives rise to an accelerated deduction. The costs of acquisition and installation of wind generators for test purposes are also deductible as expenses relating to renewable energy and energy conservation in Canada (EREECC).

EREECC can be covered by an agreement for the issue of flow-through shares. They were introduced to make the tax system fairer as it applies to the financing of renewable and non-renewable energy projects.

In the March 29, 2001 Budget Speech, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, provision is made for a transition period. Accordingly, a corporation will no longer be able to transfer EREECC to individuals by foregoing them and issuing flow-through shares since the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

- **Deduction of scientific research and experimental development (R&D) capital expenditures (1972)**

In general, R&D expenditures can be deducted immediately, even though some of them may constitute capital expenditures.

In the absence of this measure regarding R&D expenditures, these amounts would have been amortized over many years (in accordance with accounting and tax rules) and not immediately deducted. In general, expenditures intended to produce income in the future are in the nature of capital expenditures and accordingly should be amortized over the entire period during which such income is earned.

This measure constitutes preferred treatment designed to encourage R&D.

- **Deductibility of land-holding expenses (1972)**

Interest expenses on a debt concerning the acquisition of land and the property taxes paid or payable on land (holding expenses) are eligible as a deduction in calculating a taxpayer's income if the land is held mainly to earn income from it or if it is used in the course of carrying on a business which does not consist in holding the land for resale or development.

However, in the case of a taxpayer who carries on a business in the normal course of which he holds land in inventory for resale or development, the expenses of holding such land are allowable as a deduction in calculating his income only up to the amount of net income earned from such land. The excess amount, if any, must be added to the cost of the land held in inventory for inclusion upon disposition of the land.

In the specific case of a corporation whose business consists mainly in renting or selling, or developing for the purpose of renting or selling immoveable property, land-holding expenses may be deducted up the the amount of all the net income earned from such land and the corporation's basic deduction. Briefly, such basic deduction, for a year, corresponds to the amount that would be the interest for the year, calculated at the prescribed rate, on a loan of $1 000 000 that would not be repaid during the year. However, such basic deduction must be divided among related corporations.

The purpose of these measures is to recognize the high costs relating to holding land in inventory.

- **Rule on assets ready to be put into service (1990)**

Prior to 1990, taxpayers could claim a deduction for depreciation regarding assets which had yet to produce income (i.e. were not in service). In many cases, this led to a significant mismatch between revenues and expenditures, which gave rise to a tax deferral for taxpayers.

Since 1990, taxpayers generally can claim a deduction for depreciation, for eligible assets, only as of the time they put them into service or as of the second taxation year following the year of their acquisition, whichever occurs first.

The purpose of this measure is to have the period during which an asset can entitle a taxpayer to a deduction in calculating his income coincide with the period during which such asset is used to earn income.

- **Immediate deduction of advertising expenses (1972)**

Advertising expenses are eligible as a deduction in calculating a taxpayer's income for the year in which they are incurred, even if they can produce economic benefits in subsequent years.

The purpose of this measure is to simplify the tax system. While advertising expenses should normally be amortized over the useful life of the economic benefits they give rise to, it is difficult to estimate such period with an acceptable degree of accuracy.

- **Trust funds established for land-fill sites or quarries for the extraction of aggregates and similar substances (1997)**

Contributions paid by a developer to a trust fund set up for land-fill sites or quarries for the extraction of aggregates or similar substances are allowable as a deduction in calculating his income. The earnings of the trust are taxed as income of the trust and developers are required to declare the income earned by the trust as though it had been earned by them. In addition, the amounts withdrawn from such a fund by a developer are taxable, but the restoration expenses he incurs can be deducted in calculating his income.

Accordingly, the time at which the restoration expenses are deducted is brought forward. The tax expenditure, for a given year, corresponds to the relief obtained by taxpayers who can deduct from their income the contributions paid to the trust. It can be positive or negative depending on the amount of the contributions to and the withdrawals from the trust for such year.

Lastly, subject to certain conditions, such a trust fund is subject to a special tax. However, this special tax can be offset by a refundable tax credit available to beneficiaries of these trusts.

- **Holdbacks on staggered payments to contractors (1972)**

In the construction industry, contractors generally receive staggered payments as work progresses. However, a portion of these payments (generally 10 to 15%) is often held back until satisfactory completion of the work. The amounts held back do not have to be included in the contractor's income until the certified completion of the work to which the holdback applies. When a contractor himself holds back an amount owed to a sub-contractor, an amount of expense equal to that of the holdback is considered not to have been incurred by the contractor and is not deductible in calculating his income until such holdback is paid. The net effect of these two measures on the tax payable by the contractor depends on the relation between holdbacks payable and holdbacks receivable. If the latter are greater than the holdbacks payable by the contractor for a given piece of work, tax is deferred. If holdbacks payable are greater than holdbacks receivable by the contractor, a portion of tax is paid in advance.

The purpose of this measure is to recognize that the amounts thus held back do not necessarily constitute income earned or an expense incurred, as the case may be, even if they refer to work already completed.

- **Accelerated depreciation, additional 20% deduction and supplementary 25% deduction (1988, 1989 and 1997)**

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, regardless of the half-year rule and put-in-service rules generally applicable under the tax legislation.

Briefly, the assets that allow a taxpayer to claim this deduction for accelerated depreciation are manufacturing or processing equipment, foreign ore processing equipment and universal electronic information processing equipment (computer hardware). In the March 14, 2000 Budget Speech, this accelerated depreciation deduction was extended to fibre optic cables and to co-axial cables acquired after that date and used in certain designated regions of Québec. Intangible assets, such as patents, licences, permits, know-how or trade secrets, acquired in the course of a technology transfer, also give rise to this deduction.

In addition, taxpayers who carry on their business in part in Québec and in part outside Québec can claim an additional deduction equal to 20% of the deduction for depreciation claimed for such assets for a taxation year (the rate of this additional deduction was 25% prior to March 26, 1997). 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 that done in Québec.

The March 25, 1997 Budget Speech introduced a supplementary deduction of 25% for depreciation as well as a holiday from the tax on capital for new investments in certain sectors (the tax holiday is described separately in the section on the tax on capital).

Taxpayers who acquire assets otherwise eligible for the deduction for accelerated depreciation before April 1, 2005 can generally claim a supplementary deduction equal to 25% of the deduction for accelerated depreciation claimed for a taxation year, thus bringing the total deduction to 125%. If a taxpayer does part of his business outside Québec during a taxation year, the amount of the supplementary deduction is divided by the proportion of his business done in Québec for such year, so that he benefits fully from this supplementary deduction.

These measures are designed to encourage investment in Québec. More specifically, the accelerated depreciation seeks to promote what are considered priority investments. As for the additional deduction, its purpose is to grant the same financial value for the deduction for accelerated depreciation to companies doing business in other jurisdictions where the tax treatment of such investments is less advantageous.

– **Other tax expenditures**

- **Non-taxation of investment income from life insurance policies (1972)**

The tax legislation divides life insurance policies into two categories: policies in the nature of savings and policies in the nature of protection.

Policies in the nature of savings are those where the funds invested in the policy are substantial in relation to the death benefit. Holders of such policies are subject to tax on the income accrued in the year regarding the net investment income attributable to their policies.

Holders of policies in the nature of protection, however, are not subject to taxation of the annual accrued income. The net investment income is taxed when the policy is surrendered or cancelled, for a reason other than the death of the insured person, or when paid in the form of policy dividends, provided the accumulated dividends exceed the total premiums paid under the policy.

This distinction between types of life insurance policies is intended to simplify the tax system. For administrative reasons, insurance companies are subject to tax on investment income earned annually on policies in the nature of protection, but only at the federal level at a rate of 15%.

This tax expenditure is related, for the most part, to policies in the nature of protection, mainly because of the difference between the tax rate on individuals and the federal tax on investment income.

- **Accelerated depreciation to help small businesses make their computer systems year 2000 compliant (1998)**

An accelerated depreciation deduction, of up to $50 000, is allowed small and medium-size enterprises regarding the cost of computer hardware and software acquired between January 1, 1998 and October 31, 1999 to replace computer equipment that is not year 2000 compliant.

This tax relief is designed to help small and medium-size enterprises deal with the year 2000 problem.

- **Non-taxation of life insurance companies on their world income (1972)**

In general, companies with an establishment in Québec are subject to Québec tax on their income from all sources, based on the ratio between their business in Québec and their business in Québec and elsewhere (business allocation).

In the case of multinational life insurance companies, only the tax relating to their income from carrying on their life insurance business in Canada, as opposed to the tax relating to their world income, is payable in Québec in accordance with the business allocation rules.

These rules are designed to make allowance for the specific requirements regarding the life insurance industry.

- **Exemption from Québec tax of the profits of foreign air and marine transportation companies (1972)**

Provided the country of residence of a person carrying on an international marine or air transportation business offers similar treatment for persons residing in Canada, the income earned in Canada by a person not residing in Canada and earned from international transportation by ship or airplane is not subject to income tax in Québec.

This international reciprocity measure is designed to simplify the income tax rules relating to companies the nature of whose trading activities requires that they do business in many countries.

- **Federal aviation fuel excise tax rebate program (1997)**

For calendar years 1997 to 2000 inclusive, the federal government implemented a rebate program for the excise tax on aviation fuel used by airline companies. The amount of the rebate of the tax was added to the company's income, except to the extent that its tax losses were reduced according to the terms of the program.

There is no similar measure in the Québec system. The amount added for the purpose of calculating federal income tax did not have to be included in calculating income for Québec tax purposes. The excise tax rebate obtained from the federal government did not reduce the expenditure eligible as a deduction nor did it constitute a taxable amount for Québec tax purposes.

This measure enabled airline companies active in Canada to obtain a refund of the excise tax, in return for foregoing their tax losses ($10 of tax losses for $1 of rebate).

- **Tax assistance for the capitalization of the Réseau d'investissement social du Québec (1997)**

The main objectives of the Réseau d'investissement social du Québec are to contribute to the capitalization of social enterprises in Québec and provide management support for them.

To assist with its capitalization, contributions paid by a corporation entitle it to an additional deduction, in calculating its income for a taxation year, equal to 50% of the amount paid otherwise eligible as a deduction.

– **Tax measures presented for information purposes**

- **Tax depreciation (extra amount compared with accounting depreciation) (1972)**

A taxpayer who carries on a business or earns income from property (rent, for instance) can deduct a portion of the cost of certain assets used for this purpose in calculating his income.

This deduction, commonly called "deduction for depreciation", can in some cases exceed the economic depreciation of the asset. Accordingly, a deferral of tax may result when the tax deductions during the initial years of the useful life of the asset exceed the real economic depreciation of such asset.

This measure, besides recognizing that the assets used to earn income depreciate, is designed to make matters simpler for taxpayers and the tax authorities regarding the determination of the amount to be considered for this purpose in calculating income.

- **Deduction of rebates of savings and credit unions and cooperatives (1972)**

Rebates (distribution of part of the excess of revenue over expenses) paid by a savings and credit union or by a cooperative to its members are deductible in calculating its business income.

Rebates are similar to a refund of over-charges depending on the quantity of purchases made. In this case, they would not be considered a tax expenditure. Rebates can also be considered a distribution of earnings to members, in which case they should not be deductible and accordingly would constitute a tax expenditure.

It should be noted that a taxpayer who receives rebates in relation to goods or services whose cost he can deduct in calculating his income from a business or property, must include their amount in his income.

- **Deferral of capital gains through various rollover provisions (1972)**

Taxation of capital gains is deferred by provisions which allow taxpayers to avoid having to report accrued gains for tax purposes through various rollover provisions. Here are some exemples:

- transfer of property to a corporation or to a partnership in consideration for shares of the corporation or an interest in the partnership;
- merger of taxable Canadian corporations;
- winding-up of a subsidiary which is absorbed by its parent company;
- exchange of an identical number of shares.

The purpose of these provisions is to allow some flexibility for taxpayers who decide to reorganize their affairs and to avoid having taxpayers being required to immediately bear a tax burden simply because such a reorganization has occurred.

Concerning the first situation mentioned above, some specific application details were introduced in 1997. Accordingly, apart from certain exceptions, when the parties have carried out a rollover to transfer property for federal income tax purposes, a rollover is deemed to have occurred regarding the transfer of such property for Québec income tax purposes. In addition, the amount to be considered as the proceeds of disposition for the author of the transfer and the cost of the property for the beneficiary of the transfer, for Québec income tax purposes, is deemed to be the amount considered as such as part of the rollover election made for federal income tax purposes. Similarly, if no rollover has occurred regarding the transfer of property for federal income tax purposes, no rollover is possible regarding the transfer of such property for Québec income tax purposes.

The latter provisions are designed to put an end to transactions designed to avoid provincial tax based on the existence of separate rollover elections in the federal and Québec tax legislation.

- **Deduction of entertainment expenses (1972)**

Meal and entertainment expenses incurred by a taxpayer in the course of carrying on a business or to earn income from property (an apartment building, for instance) may be deducted in calculating his income in a proportion of 50%.

This measure recognizes the fact that some expenditures are necessary to earn income and is designed to ensure that only the taxpayer's real economic gain is taxed.

However, in view of the element of personal consumption inherent in such expenses, the portion of such expenses that can be deducted is limited to 50%.

Nonetheless, some expenses have been exempted from the 50% limit, namely those relating to the cost of a subscription or the purchase of a block of tickets for concerts by a symphony orchestra or a classical music or jazz ensemble, opera, dance or vocal performances and plays, provided these cultural events take place in Québec.

- **Deduction for forest operations (1972)**

The tax on forest operations is 10% of the income from forest operations.

This tax does not raise the tax burden on the taxpayer since a deduction can be applied to reduce income tax in both the federal and Québec tax systems.

The Québec deduction is 1/3 of the tax on forest operations, while the federal deduction is 2/3 of such tax.

This deduction is designed to maintain the taxpayer's overall tax load unchanged and constitutes a mechanism for transferring tax receipts (through the federal deduction) in a sector of provincial jurisdiction (natural resources).

- **Deduction for investment corporations (1972)**

Briefly, an investment corporation is a Canadian public corporation at least 80% of whose assets consist of shares, bonds, negotiable securities or cash and at least 95% of whose income is derived from investment in such securities.

An investment corporation may elect that the dividends it pays to its shareholders constitute a capital gain for them.

Consequently, investment corporations can claim a deduction in calculating their taxable income equal to the amount of their taxed capital gains, i.e., briefly, the excess of their taxable capital gains for one year over their allowable capital losses for such year.

It should be noted that at the federal level, investment corporations enjoy a tax credit equal to 20% of the excess of their taxable income over their taxed capital gains.

The purpose of this deduction is to integrate the direct tax systems of corporations and individuals, the latter being taxed on the investment income of an investment corporation when they receive it in the form of dividends.

- **Extra deduction for intangible fixed assets (1972)**

Three quarters of the amounts disbursed by a taxpayer as capital and relating to an intangible asset acquired to earn business income constitute the allowable portion of intangible assets of the taxpayer in relation to such business. An annual deduction of up to 7% of the allowable portion of intangible assets is granted to a taxpayer in calculating his business income. An example of an intangible asset is goodwill acquired when a business is purchased.

Essentially, the tax treatment of intangible assets is the same as the one applied to other fixed assets. The cost of acquisition is accordingly deductible gradually, similar to the situation in the case of tax depreciation.

This treatment of intangible assets can give rise to a positive or negative tax expenditure depending on the difference between the accounting rate of depreciation and the rate of the deduction stipulated in the tax legislation.

This measure, besides recognizing that part of the amounts disbursed as capital in the course of a business is used annually to earn business income, is intended to facilitate matters for taxpayers and the tax authorities regarding the determination of the amount to be considered as such in calculating income.

- **Exemption of the active income of foreign subsidiaries of Canadian corporations (1972)**

In general, the tax legislation stipulates that a taxpayer must include in calculating his income any amount he receives as dividends on any shares he owns of the capital stock of a corporation that is not a resident of Canada.

However, in the case where such dividend is received by a corporation that is a resident of Canada on a share of the capital stock of a foreign subsidiary of such corporation, a deduction is granted to the corporation based on the source of the dividend.

Briefly, when the dividend paid constitutes income from an eligible business carried on in a country with which Canada has concluded a tax agreement designed to avoid double taxation, i.e. from the exempt surplus of the foreign subsidiary, the Canadian corporation may deduct the full amount of the dividend in calculating its income. No Québec or Canadian tax is then payable regarding such dividend.

When the dividend paid constitutes a distribution of income from the eligible business carried on in a country with which Canada has not concluded a tax agreement, i.e. from the taxable surplus of the foreign subsidiary, the Canadian corporation can deduct an amount (foreign tax credit) designed to compensate for the fact that tax has been paid abroad on the business income or the dividend. Accordingly, Québec or Canadian tax is payable only if the tax paid abroad is less than 38%, i.e. the basic rate of the federal corporate income tax.

Lastly, when the dividend is paid from surplus prior to the acquisition of the foreign subsidiary, the Canadian corporation can deduct the full amount of the dividend, but must then reduce the tax cost of its shares in the foreign subsidiary. Accordingly, upon disposition of these shares, the gain realized by the Canadian corporation will be greater.

Briefly, a subsidiary is a foreign subsidiary of a taxpayer that is a resident of Canada if such taxpayer has at least a 1% interest in the subsidiary and if the taxpayer and the persons with whom he is related taken together have at least a 10% interest.

The rules relating to dividends paid by foreign subsidiaries are designed to encourage international competitiveness, maintain the integrity of the tax base and eliminate double taxation.

- **Refundable tax credit for losses (1981)**

Until June 30, 1999, Québec's tax legislation allowed a corporation (it could make an election) that suffered a loss other than a capital loss (business loss) in a taxation year, to convert such loss into a refundable tax credit, up to three times its tax on capital payable for the year. However, the portion of the tax credit that could not be claimed during the year of the loss because of such limit could be carried forward for the subsequent seven taxation years.

The rate of the tax credit was the same as that applicable to the taxable income of a corporation eligible for the small business deduction (SBD), namely 5.75%.

This mechanism allowed a corporation to receive the tax value of a loss in the year the loss was suffered, rather than waiting to be able to deduct such loss against taxable income in a subsequent year.

The 1996-1997 Budget Speech limited the refundable tax credit for losses to SMEs. Accordingly, only corporations that could claim the SBD, namely corporations whose paid-up capital for the preceding taxation year did not exceed $15 million, could henceforth claim a refundable tax credit for losses.

Under the corporate taxation reform, announced March 31, 1998, this tax credit was eliminated. Accordingly, the election allowing such a credit to be claimed can no longer be made for a loss other than a capital loss suffered for taxation years ending after June 30, 1999. In addition, the portion of tax credits relating to taxation years ending no later than such date, which was non-refundable because of the applicable limits, became fully refundable.

2.2 Tax on capital

– **Five-year tax holiday for new corporations (1986)**

A five-year tax holiday is granted for new corporations. This tax holiday covers the three major corporate tax bases, namely income tax, tax on capital and the employer contribution to the Health Services Fund (HSF).

This tax holiday used to be for three taxation years for corporations whose first taxation year began before March 26, 1997.

More specifically, for a taxation year ending no later than June 30, 1999, a new corporation which is a Canadian-controlled private corporation could claim a deduction of $2 million in calculating its paid-up capital for the purposes of the tax on capital, if it qualified as a “new corporation”.

For a taxation year which includes July 1, 1999, such a corporation could deduct, in calculating its paid-up capital, an amount of $2 million and an additional amount equal to the proportion of $1 million represented by the ratio between the number of days in the taxation year following June 30, 1999 and the number of days in such taxation year.

For a taxation year beginning after June 30, 1999, such a corporation may deduct an amount of $3 million in calculating its paid-up capital for such year.

This deduction applies only to the first five years of operation of the corporation.

However, the tax on capital payable by a new corporation may not be less than the minimum required under the tax legislation, generally $250.

This measure is designed to encourage new business start-ups and is a form of recognition of the significant costs involved in setting up a business.

– **Tax holiday for international financial centres (1985)**

An international financial centre (IFC) is a business or part of a business all of whose activities bear on international financial transactions.

A corporation or a corporation which is a member of a partnership operating an IFC, enjoys an exemption from the tax on capital regarding the paid-up capital reasonably attributable the operations of the IFC.

The purpose of this measure is to encourage financial institutions and other organizations in the financial sector to carry out international transactions in Montréal.

– **Exemption from the tax on capital for corporations that carry out an innovative project in an information technology development centre (1997)**

The concept of Centres de développement des technologies de l'information (CDTI), or information technology development centres, was introduced in the March 25, 1997 Budget Speech. Briefly, it is designed to support corporations which undertake to carry out, within designated buildings,[12] innovative projects in the new information and communications technologies field. Furthermore, a building designated as the Centre de développement des biotechnologies de Laval, dedicated to innovative projects in biotechnology, is also considered a CDTI for the purposes of the tax measures. The Centre de développement des biotechnologies de Laval was designated in the March 29, 2001 Budget Speech.

A tax holiday is granted to corporations which carry out an innovative project in a CDTI. This tax holiday covers the three main corporate tax bases, namely income tax, the tax on capital and the employer contribution to the Health Services Fund (HSF).

More specifically, a corporation which carries out an innovative project in a CDTI can claim a complete exemption from the tax on capital for its first five years of operation.

This tax measure is administered by Investissement Québec, which oversees the achievement of the government's objectives and issues the eligibility certificates necessary to claim these tax benefits.

– **Exemption from the tax on capital concerning the Montréal Foreign Trade Zone at Mirabel (1999)**

The Montréal Foreign Trade Zone at Mirabel (the Mirabel Zone) was created in 1999 to support the establishment of strategic businesses that will contribute to the development of Mirabel and bolster the role of the greater Montréal region as a hub of international trade.

[12] For greater clarity, a corporation that carries out an innovative project in a designated building of a CNE can also benefit from this exemption.

For this purpose, a corporation which carries on, within the Mirabel Zone, an eligible business, i.e. a business in any of the four following sectors, namely international logistics, aircraft maintenance and repair, supplementary professional training in aviation, and light processing, or a business that, in the view of the Minister of Finance, is of particular interest for Québec's economy, can claim, until December 31, 2010, an exemption from the tax on capital for the portion of its paid-up capital reasonably attributable to the carrying on of such eligible business.

– **Tax holiday for eligible corporations to support the development of securities exchanges and clearing-house corporations in Montréal (2000)**

In general, a corporation that, during a taxation year, carries on a securities exchange business or a securities clearing-house corporation in Québec, carries out such operations in an establishment located within the territory of the City of Montréal, and more than half of whose salaries paid to employees of the corporation are paid to employees of an establishment located in Québec, may benefit from the tax measures in support of the development of securities exchanges and securities clearing-house corporations.

Briefly, these support measures enable eligible corporations to benefit, until December 31, 2010, from an exemption from income tax,[13] an exemption from the tax on capital and an exemption from employer contributions to the Health Services Fund [14] (HSF) in relation to the securities exchange or securities clearing-house corporation business they carry on within the territory of the City of Montréal.

More specifically, in terms of the tax on capital, these support measures consist of a deduction, in the calculation of the paid-up capital of an eligible corporation, of the paid-up capital attributable to the activities such corporation carries out as a securities exchange or securities clearing-house corporation, for any taxation year or part of a taxation year included in the period beginning October 1, 2000 and ending December 31, 2010.

These tax support measures are designed to accelerate the positioning of the Montréal Exchange on the world financial derivatives market and foster broader access to capital markets for Québec corporations.

- **Tax holiday regarding major investment projects (2000)**

In the March 14, 2000 Budget Speech, the government introduced a tax holiday regarding major investment projects. This tax holiday replaces the tax rate guarantee mechanism that ensured stability of tax rates for companies that undertake major investment projects.

[13] This tax expenditure is considered in the sub-section “Reduced tax rates and exemptions”.

[14] This tax expenditure is considered in the section “Health Services Fund”.

Essentially, the tax holiday enables eligible taxpayers that carry out a major investment project in Québec to benefit, for a period of ten years beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax, an exemption from the tax on capital and an exemption from employer contributions to the Health Services Fund (HSF) relating to the business carried on following the completion of the major investment project.

In general, an investment project, in order to qualify as a “major investment project”, must be carried out in the primary sector, the manufacturing sector or the propulsive service sector, excluding placement offices and accounting services. Major investment projects carried out in the traditional tertiary sector, as well as in a sector incidental thereto, are also eligible if they consist in developing an international resort. Furthermore, certain criteria must be met, within specific times, particularly regarding minimum investment thresholds to be achieved and growth in payroll. Lastly, to obtain the tax holiday, an initial eligibility certificate as well as annual eligibility certificates must be issued by the Minister of Finance.

In addition, to maintain a direct link between the purpose of the tax holiday and the reason for which it is granted, namely the undertaking of a major investment project by a taxpayer, the tax holiday is granted for an investment project carried out by the taxpayer, i.e., more specifically, as if the activity carried on after the project is completed constitutes the carrying on of a separate business by a separate person.

Concerning the tax on capital more specifically, a corporation may benefit, for the ten-year period beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from the tax on capital consisting of a deduction in the calculation of paid-up capital. This deduction generally corresponds to the amount of paid-up capital calculated using the balance sheet of the separate business.

This tax holiday is designed to further encourage businesses to undertake major investment projects in Québec.

– **Ten-year tax holiday for manufacturing SMEs in remote resource regions (2001)**

A ten-year tax holiday is granted to eligible corporations that carry on a manufacturing or processing business in a remote resource region of Québec. This tax holiday, which applies from March 30, 2001 to December 31, 2010, covers the same tax bases as the five-year tax holiday for new corporations, namely income tax, the tax on capital and employer contributions to the HSF.

The paid-up capital of a corporation, calculated on a consolidated basis, is used to determine a corporation’s eligibility for the tax holiday. If paid-up capital is between $10 million and $15 million, it is also used to determine the amount of the exemption from the tax capital for the corporation for such year.

More specifically, for a taxation year, the exemption from the tax on capital consists of a deduction corresonding to the amount of paid-up capital, if such paid-up capital, calculated on a consolidated basis, does not exceed $10 million.

However, the deduction is reduced linearly if the corporation's paid-up capital, calculated on a consolidated basis, is between $10 million and $15 million. No deduction is allowed if paid-up capital, calculated on a consolidated basis, exceeds $15 million. Lastly, a reduction must be made for a corporation whose taxation year straddles March 30, 2001, or if the end of the taxation year does not coincide with December 31, 2010.

– **Deduction of one-third of the paid-up capital of mining corporations (1979)**

A mining corporation can reduce its tax on capital otherwise payable by 33 1/3% provided its gross income for the year is derived from a mineral resource.

This measure is designed to recognize the substantial capital needs of mining corporations.

– **Rate of 2% for life and health insurance premiums (1972)**

For the purposes of the tax on capital, insurance companies are not subject to the same tax base as other companies. Instead of being taxed on paid-up capital, the tax on capital of insurance companies depends on the premiums they collect.

The rate of the tax is 2% when the premium is for a life insurance, health insurance or disability insurance policy, and 3% in other cases.

The decision to raise the rate of the tax to 3% of premiums for property damage was made in 1980, thus granting a tax preference for life and health insurance premiums which remained subject to a rate of 2%.

As part of the 1996-1997 Budget Speech, a compensatory contribution on the capital of life insurance companies, similar to the one in effect in Ontario and drawing largely on the federal Part VI tax, was introduced. This compensatory contribution corresponds to the amount by which 1.25% of the "taxable capital" used in Québec of such a company for a year exceeds the amount of income tax payable under Part I by such company. However, an annual capital exemption is allowed (minimum of $10 million).

– **Exemption for cooperatives (1972)**

Québec's tax legislation exempts cooperatives from payment of the tax on capital. The cooperative movement is essentially based on providing users with service at lower cost, and not on enriching those who have invested capital therein.

The 1996-1997 Budget Speech made savings and credit unions, which are cooperatives, subject to the tax on capital. Accordingly, for its taxation years ending after May 9, 1996, a credit union is subject to a rate of 1.28% applicable on its paid-up capital, which corresponds to the total of:

- its permanent shares;
- its long-term liabilities;
- 50% of the value of its tangible assets.

However, a basic deduction of $300 000 is allowed in calculating its paid-up capital.

- **Exemption for corporations operating in the agriculture or fisheries sector (1985 and 1995)**

Corporations whose chief activities consist in carrying on an agriculture or fishing business can claim a deduction of $400 000 in calculating their paid-up capital for the purposes of determining their tax on capital. However, the tax on capital payable by such corporations cannot be less than $125.

The purpose of this deduction is to recognize that, compared with other businesses, agricultural or fishing corporations require a relatively high level of capitalization in relation to the income they generate.

- **Exemption for labour-sponsored funds (1989 to 1996)**

Until May 9, 1996, the Fonds de solidarité des travailleurs du Québec (FSTQ) and the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (Fondaction), did not have to pay tax on capital, since, in calculating their paid-up capital used in determining this tax, they could claim a deduction equivalent to such paid-up capital.

The effect of this measure was to increase the liquid assets of these labour-sponsored funds to promote job creation and investment in small and medium-size enterprises.

- **Inactive corporations with assets of less than $5 000 (1979)**

A corporation which has not carried on a business during a taxation year and whose assets do not exceed $5 000 is exempt from the tax on capital for such year.

The purpose of this measure is to not demand minimum amounts of tax from corporations whose activities have ceased.

– **Exemption of government organizations, charities and other non-profit organizations (1972)**

Municipalities and other public organizations, registered charities, non-profit organizations and other organizations exempt from income tax are also exempt from payment of the tax on capital.

This is a preferential measure attributable to the nature of the activities carried out by such organizations.

– **Mining corporation yet to reach the production stage (1972)**

A mining corporation that has yet to reach the production stage pays tax on capital of $250 rather than a tax that depends on its paid-up capital.

This measure is designed to recognize the cash difficulties of mining corporations developing a deposit without having reached the production stage.

– **Deduction for the acquisition or conversion of ships (1996 and 1997)**

Since May 9, 1996, a deduction is allowed in calculating the paid-up capital of a corporation, for the purposes of the tax on capital, based on the acquisition expenses of a ship satisfying certain requirements or the portion of the capital cost of an eligible ship that has been incurred since the beginning of construction. This deduction is allowed for a period including the taxation years during which the ship is under construction, the year it is delivered and the four subsequent years.

The ship must be built in a shipyard in Québec, as part of a project for which the ministère des l’Industrie et du Commerce has issued a certificate. The eligible acquisition expenses of a corporation mean, in general, the expense corresponding to the portion of the cost of construction paid by the corporation to the builder since the beginning of construction or, if the corporation builds the ship itself, the portion of the capital cost incurred since the beginning of construction.

Since March 25, 1997, eligible conversion expenses incurred by a corporation also give rise to a deduction in calculating the corporation’s paid-up capital.

This measure is designed to encourage shipbuilding and conversion in Québec.

– **Holiday from the tax on capital for new investments in certain sectors (1997)**

A supplementary deduction of 25% for depreciation as well as a holiday from the tax on capital for new investments in certain sectors were introduced on March 25, 1997.

More specifically, the holiday from the tax on capital takes the form of a deduction, in calculting the paid-up capital of a corporation whose rate of tax on capital payable for a taxation year is 0.64%, based on the eligible acquistion expenses incurred by it regarding an eligible asset.

A corporation can claim this deduction for eligible acquistion expenses it incurs, in a taxation year, for the taxation year during which such expenses are incurred and for the subsequent taxation year.

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

However, these assets must be acquired by a corporation, or by a partnership, as the case may be, before April 1, 2005, subject to the transition periods stipulated by the tax legislation.

This measure is designed to encourage investment in Québec.

– **Reduction in the paid-up capital of certain financial institutions (1998)**

The March 31, 1998 Budget Speech introduced a deduction in the calculation of the paid-up capital of certain financial institutions.

More specifically, a bank may 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, were less than $100 billion.

This measure applies for taxation years ending after March 31, 1998. However, for a taxation year that includes that date, the amount of this deduction is calculated in proportion to the number of days of such taxation year following such date.

This measure is designed to allow Québec to derive maximum benefit from the consolidation trend in the banking industry.

2.3 Health Services Fund

– Five-year tax holiday for new corporations (1996)

Until 1996, the tax holiday for new corporations applied only to income tax and the tax on capital. This tax holiday for new corporations was broadened in the 1996-1997 Budget Speech so that a new corporation can also claim an exemption regarding its employer contributions to the Health Services Fund (HSF) attributable to the wages paid or deemed to be paid during its initial taxation years.

This tax holiday was for three taxation years for corporations whose first taxation year began before March 26, 1997. It was increased to five years for an eligible corporation whose first taxation year begins after March 25, 1997.

More specifically, for a taxation year ending no later than June 30, 1999, a new corporation which is a Canadian-controlled private corporation can claim an exemption from the employer contribution to the HSF, for wages paid or deemed to be paid during such taxation year up to $300 000, if it qualifies as a “new corporation”.

The contribution exemption rises gradually to $500 000 and to $700 000 for taxation years ending after June 30, 1999 and June 30, 2000 respectively. The increase in the exemption is based on the number of days of the taxation year following June 30, 1999 or June 30, 2000, as the case may be.

This deduction applies only to the first five years of operation of the corporation.

This measure is designed to encourage new business start-ups and allows some recognition for the significant costs involved in starting up a business.

– Exemption for international financial centres (1985)

An international financial centre (IFC) is a business or part of a business all of whose activities bear on international financial transactions.

A corporation or a corporation which is a member of a partnership operating an IFC, enjoys an exemption from the employer contribution to the Health Services Fund (HSF) for the wages paid or deemed to be paid to the employees of the business recognized as an IFC. A corporation is also exempt from the compensatory tax on financial institutions regarding such wages.

These exemptions are designed to encourage the establishment of IFCs in Montréal.

– **Exemption for corporations carrying out an innovative project in an information technology development centre (1997)**

The concept of Centres de développement des technologies de l'information (CDTI), or information technology development centres, was introduced in the March 25, 1997 Budget Speech. Briefly, it is designed to support corporations which undertake to carry out, within designated buildings,[15] innovative projects in the new information and communications technologies field. Furthermore, a building designated as the Centre de développement des biotechnologies de Laval, dedicated to innovative projects in biotechnology, is also considered a CDTI for the purposes of the tax measures. The Centre de développement des biotechnologies de Laval was designated in the March 29, 2001 Budget Speech.

An exemption is granted to corporations which carry out an innovative project in a CDTI. This tax holiday covers the three main corporate tax bases, namely income tax, the tax on capital and the employer contribution to the Health Services Fund (HSF).

More specifically, a corporation which carries out an innovative project in a CDTI can claim a complete exemption from employer contributions to the HSF for its first five years of operation.

This tax measure is administered by Investissement Québec, which oversees the achievement of the government's objectives and issues the eligibility certificates necessary to claim these tax benefits.

– **Exemption concerning the Montréal Foreign Trade Zone at Mirabel (1999)**

The Montréal Foreign Trade Zone at Mirabel (the Mirabel Zone) was created in 1999 to support the establishment of strategic businesses that will contribute to the development of Mirabel and bolster the role of the greater Montréal region as a hub of international trade.

For this purpose, a corporation which carries on, within the Mirabel Zone, an eligible business, i.e. a business in any of the four following sectors, namely international logistics, aircraft maintenance and repair, supplementary professional training in aviation, and light processing, or a business that, in the view of the Minister of Finance, is of particular interest for Québec's economy, can claim an exemption from employer contributions to the Health Services Fund (HSF) regarding wages paid, before January 1, 2011, to the employees of such eligible business that carry out at least 75% of their duties within the Mirabel Zone.

[15] For greater clarity, a corporation that carries out an innovative project in a designated building of a CNE can also benefit from this exemption.

– **Tax holiday for eligible corporations to support the development of securities exchanges and clearing-house corporations in Montréal (2000)**

In general, a corporation that, during a taxation year, carries on a securities exchange business or a securities clearing-house corporation in Québec, carries out such operations in an establishment located within the territory of the City of Montréal, and more than half of whose salaries paid to employees of the corporation are paid to employees of an establishment located in Québec, may benefit from the tax measures in support of the development of securities exchanges and securities clearing-house corporations.

Briefly, these support measures enable eligible corporations to benefit, until December 31, 2010, from an exemption from income tax,[16] an exemption from the tax on capital [17] and an exemption from employer contributions to the Health Services Fund (HSF) in relation to the securities exchange or securities clearing-house corporation business they carry on within the territory of the City of Montréal.

More specifically, in terms of the exemption from employer contributions to the HSF, these support measures consist of an exemption from contributions regarding salaries paid to the employees of the securities exchange or securities clearing-house corporation business carried on within the City of Montréal by the eligible corporation, for a pay period ending after October 1, 2000 and before December 31, 2010.

These tax support measures are designed to accelerate the positioning of the Montréal Exchange on the world financial derivatives market and foster broader access to capital markets for Québec corporations.

– **Tax holiday regarding major investment projects (2000)**

In the March 14, 2000 Budget Speech, the government introduced a tax holiday regarding major investment projects. This tax holiday replaces the tax rate guarantee mechanism that ensured stability of tax rates for companies that undertake major investment projects.

Essentially, the tax holiday enables eligible taxpayers that carry out a major investment project in Québec to benefit, for a period of ten years beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax, an exemption from the tax on capital and an exemption from employer contributions to the Health Services Fund (HSF) relating to the business carried on following the completion of the major investment project.

[16] This tax expenditure is considered in the sub-section “Reduced tax rates and exemptions”.

[17] This tax expenditure is considered in the section “Tax on capital”.

In general, an investment project, in order to qualify as a "major investment project", must be carried out in the primary sector, the manufacturing sector or the propulsive service sector, excluding placement offices and accounting services. Major investment projects carried out in the traditional tertiary sector, as well as in a sector incidental thereto, are also eligible if they consist in developing an international resort. Furthermore, certain criteria must be met, within specific times, particularly regarding minimum investment thresholds to be achieved and growth in payroll. Lastly, to obtain the tax holiday, an initial eligibility certificate as well as annual eligibility certificates must be issued by the Minister of Finance.

In addition, to maintain a direct link between the purpose of the tax holiday and the reason for which it is granted, namely the undertaking of a major investment project by a taxpayer, the tax holiday is granted for an investment project carried out by the taxpayer, i.e., more specifically, as if the activity carried on after the project is completed constitutes the carrying on of a separate business by a separate person.

Concerning more specifically the exemption from employer contributions to the HSF associated with the business carried on further to the completion of the major investment project, the exemption applies regarding wages paid for a pay period ending during the ten-year tax holiday period.

This tax holiday is designed to further encourage businesses to undertake major investment projects in Québec.

– **Ten-year tax holiday for manufacturing SMEs in remote resource regions (2001)**

A ten-year tax holiday is granted to eligible corporations that carry on a manufacturing or processing business in a remote resource region of Québec. This tax holiday, which applies from March 30, 2001 to December 31, 2010, covers the same tax bases as the five-year tax holiday for new corporations, namely income tax, the tax on capital and employer contributions to the HSF.

The paid-up capital of a corporation, calculated on a consolidated basis, is used to determine a corporation's eligibility for the tax holiday. If paid-up capital is between $10 million and $15 million, it is also used to determine the amount of the five-year tax holiday regarding employer contributions to the HSF the corporation may claim for such year.

More specifically, for a taxation year, the tax holiday regarding employer contributions to the HSF applies, for a given taxation year, to all the wages paid or deemed to be paid by an eligible corporation during such given taxation year, if the paid-up capital, calculated on a consolidated basis, does not exceed $10 million.

However, the exemption regarding employer contributions to the HSF applicable to pay periods ending in a taxation year is reduced linearly if the paid-up capital of an eligible corporation for a given taxation year is greater than $10 million but less than $15 million. No exemption is allowed if the paid-up capital, calculated on a consolidated basis, is greater than $15 million.

In addition, if the taxation year of an eligible corporation includes March 30, 2001, the exemption covers only the wages paid or deemed to be paid as of the pay period that includes March 30, 2001. Lastly, the exemption an eligible corporation may claim for its taxation year including December 31, 2010 must be reduced, to cover only the wages paid or deemed to be paid up to the last pay period preceding January 1, 2011.

3. TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM

3.1 Québec sales tax (1992)

– Zero-rated property and services

- **Basic groceries**

Basic groceries, which include most foodstuffs meant to be prepared and eaten at home, are not subject to the Québec sales tax (QST). However, the QST does apply to certain products such as softdrinks, candy and other confectionery, snacks, and alcoholic beverages. A similar measure, introduced in 1940, also existed under the former retail sales tax system.

This exemption was meant to take into account the negative consequences of a tax on basic foodstuffs for low-income taxpayers and the general opinion expressed by taxpayers that basic foodstuffs should not be taxed.

- **Prescription drugs**

Controlled drugs that may only be obtained by prescription and other drugs prescribed by a physician or a dentist are not subject to the QST. However, this exemption does not apply to labelled drugs or drugs supplied for veterinary use.

This exemption was included because prescription drugs associated with health care are considered an essential need. Taxation of such drugs would have negative consequences on low-income taxpayers.

Under a measure introduced in 1940, the former retail sales tax system also exempted drugs prescribed by a physician.

- **Medical devices**

A wide range of medical devices are not subject to the QST, in particular canes, crutches, wheelchairs, artificial limbs and orthopaedic supports, medical and surgical prostheses, hospital beds, artificial breathing devices, hearing and speaking aids, corrective glasses and contact lenses supplied or intended to be supplied by prescription, various products for diabetics, and certain devices designed specially for the blind and the hearing and speech impaired. Replacement parts and the installation and repair costs for these devices are also exempt.

This exemption was provided because medical devices associated with health care are considered essential needs for disabled persons, who must assume these special expenses in order to live in society and hold employment.

It should be noted that certain medical devices were also exempt from the former retail sales tax system starting in 1944, but not as many.

- **Books**

In general, books are not subject to the QST. In 1940, a similar exemption was introduced under the former retail sales tax system.

This measure is intended to encourage the book publishing industry, which is at the heart of Québec's specific identity, and to maintain access to this cultural product for all taxpayers.

- **Hotel packages**

Prior to April 1, 1997, the QST did not apply to lodging and meals provided in conjunction with a hotel package including at least two consecutive nights of accommodation and two meals per day.

This measure, which was implemented on February 1, 1994 in order to promote the development of the Québec tourism industry, did not have the anticipated effect on tourism demand. Consequently, it was abolished on April 1, 1997. Since then, $10 million has been allocated annually, drawn from the revenues engendered by the abolition of this measure, to bolster the promotion and development of the Québec tourism industry.

- **Financial services**

The QST system, like the goods and services tax (GST) system, provides for a tax exemption in respect of most financial services, including, in particular, financial intermediation, market intermediation and risk-pooling services.

This measure was provided because of the problems posed by the application of a sales tax on financial services. Given the structure of this sector, the price of services offered is often implicit and is reflected, for example, in the difference between the interest rate demanded of borrowers and the yield granted depositors, insured parties and annuitants. Although it is theoretically possible to establish these implicit prices, the operation is extremely complex in practice and, as a result, no country has succeeded in effectively applying a sales tax on financial services.

Unlike the GST system, the QST system grants the suppliers of financial services a refund on the QST paid in respect of their purchases of property and services (inputs).

This refund is intended to maintain the competitiveness of Québec's financial institutions and to keep these institutions from acquiring property and services or carrying on certain activities (legal services, computer services, etc.) outside the province because of the increase in costs arising from the application of the QST.

However, in order to maintain neutrality toward other economic sectors and take into account the cost to the government of this refund, financial institutions are subject to a compensatory tax that is intended to hold their overall tax burden constant in relation to what it was prior to the reform of the QST.

– **Exempt property and services**

- **Rental accommodation**

The QST does not apply to long-term rental accommodation (at least one month) or to short-term accommodation (less than one month) the cost of which does not exceed $20 per day (this provision covers certain temporary lodgings in boarding houses).

This exemption was provided because housing is considered to be an essential need that is a major element of household consumption. The taxation of rental accommodation would have serious negative consequences for low-income taxpayers.

- **Sales of used residential buildings or personal use buildings**

The sale of used residential buildings or personal use buildings is not usually subject to the QST (for example, a house occupied by the owner, an apartment building or a cottage). However, this exemption does not apply to commercial buildings or to those sold as part of a business.

This exemption is intended to avoid QST cascading, which would be contrary to the basic principle of a value-added tax. The exemption also ensures access to home ownership for many households.

- **Health care services**

The QST does not apply to health care services, which include:

– services provided in a health care institution;

– services provided by certain health practitioners whose profession is governed by the government in at least five provinces, in particular, physicians, dentists, audiologists, occupational therapists, and optometrists;

– services covered by a provincial health insurance plan.

Health care services are exempt because they are considered to be essential services to which all taxpayers must have access. The taxation of such services would have negative consequences for low-income taxpayers. Moreover, the province bears most health care costs.

- **Educational services**

Most educational services are exempt from the QST. The exemption applies to the tuition fees paid in respect of courses offered mainly to elementary and secondary school students, credit courses leading to a diploma or certificate granted by a recognized school authority, college or university, and certain other types of vocational training. Moreover, the exemption applies to meals supplied to elementary and secondary school students and most of the meal plans available in colleges and universities.

Educational services are exempt because they are considered to be essential services to which all taxpayers must have access.

- **Child care and personal care services**

The QST does not apply to the following services:

- child care services offered for a period normally less than 24 hours to children 14 years of age or under (private or public day care centres, nursery schools, kindergartens, day camps, etc.);

- personal care services that consist of providing care, supervision and a place of residence to children or disabled or underprivileged persons in an establishment operated for this purpose (reception centres, children's aid societies, etc.).

Child care and personal care services are exempt because they are considered to be essential services.

- **Standard municipal services**

Municipal services pertaining to the establishment and maintenance of municipal infrastructure and which are integral to the role of local authorities are exempt from the QST. These are standard residential services supplied by the municipalities that property owners may not refuse, such as garbage collection, police and fire protection services, waterworks and sewage systems, and road construction.

These services, which are usually financed by the municipality's general revenues (tax accounts), are exempt because they are considered to be essential services that benefit the entire community.

- **Municipal transit services**

The QST does not apply to municipal transit services when they are provided by a body operated or funded by the government, a municipality or a school authority and when at least 90% of the services provided by the body consist in providing public transportation in a municipality and its surroundings.

Municipal transit services are exempt because they are considered to be essential services to which the entire community must have access.

- **Ferries, and road and bridge tolls**

Ferry services between parts of a road system separated by a stretch of water and the tolls paid to have the right to use a road or a bridge are not subject to the QST.

These exemptions were provided because the right to use the road system is considered to be an essential service to which society as a whole must have access.

– **Tax rebates**

- **Rebates granted to public service bodies**

▸ **Charities and certain non-profit organizations**

Charities and non-profit organizations funded at least 40% by a government or municipality may obtain a 50% rebate of the QST paid on their purchases.

This rebate, which is granted in order to take into account the important role played by such organizations in Québec society, is intended to appreciably reduce the additional tax that the introduction of the QST would have levied on charitable and non-profit activities benefiting from public support.

▸ **Schools, colleges, universities, hospitals and municipalities**

To ensure that non-profit schools, colleges and universities and hospitals and municipalities do not assume a greater tax burden because of the reform of the QST, a partial rebate of the tax paid by these organizations on their purchases was introduced on July 1, 1992.

The rebate rate for non-profit schools, colleges and universities was initially set at 30%, and was raised to 47% on May 10, 1995.

The rebate rate for hospitals was raised from 19% to 70% on May 10, 1995, then reduced to 66% on April 1, 1997 and to 60% on April 1, 2000.

Finally, the rebate rate for municipalities was raised from 40% to 43% on May 10, 1995. The rebate was completely eliminated on January 1, 1997.

- **Rebate granted to purchasers of new residential housing**

Purchasers of new housing are entitled to a partial rebate of the QST paid on the home if they occupy it as their primary residence. In the case of homes costing $200 000 or less ($175 000 prior to March 15, 2000), 36% of the total QST paid is refunded. The rebate decreases gradually for homes priced between $200 000 and $225 000 (between $175 000 and $200 000 prior to March 15, 2000). The maximum rebate is on the order of $5 642 ($4 937 prior to March 15, 2000 and $4 278 prior to January 1, 1998).

The rebate was implemented on May 13, 1994 and was designed to ensure access to home ownership for most households and to ensure that the QST has only a negligible impact on the price of new housing.

- **Rebate granted to lessors of new residential property**

Like purchasers of new residential housing, purchasers and builders of new residential rental property are entitled to a partial rebate of the QST paid on new residential units to be rented for a period of at least 12 months. This rebate is in fact similar to the rebate for new residential housing, in that 36% of the total QST paid is refunded in the case of rental units priced $200 000 or less ($175 000 prior to March 15, 2000), and in that the rebate gradually decreases for units priced between $200 000 and $225 000 (between $175 000 and $200 000 prior to March 15, 2000). The maximum rebate is on the order of $5 642 ($4 397 prior to March 15, 2000).

The rebate was implemented on February 28, 2000, and was designed to reduce a portion of the QST payable at the outset by purchasers and builders of new residential rental property. As a result of the rebate, purchasers and builders of such property can take advantage of the rate available to purchasers of owner-occupied residential buildings.

- **Rebate granted to foreign tourists**

Prior to October 1, 2000, foreign tourists visiting Québec were entitled to a rebate of the QST paid on most property acquired for use primarily outside the province.

Prior to November 1, 2001, they were entitled to a rebate of the QST paid on short-term accommodation services (less than one month).

The revenue from the elimination of these measures, which was to be used to promote the development of the tourism industry, is instead funnelled directly to Tourisme-Québec to bolster the promotion and development of Québec tourism internationally.

- **Rebate provided for automatic door openers for the use of disabled persons**

The purchaser of an automatic door opener and the related installation service is entitled to a rebate of the QST paid in this respect when the door opener is acquired for the use of a person who, because of a physical disability, is unable to enter his residence without assistance.

This rebate was introduced on March 10, 1999 so that automatic door openers benefit from tax treatment similar to that applied to other medical devices, which are considered to satisfy the essential needs of disabled persons.

– **Measures to facilitate QST administration**

- **Exclusion of small suppliers from the field of application of the QST**

Small suppliers, i.e. businesses whose sales do not exceed $30 000 in a given year ($50 000 since April 23, 1996 in the case of businesses that are public service bodies), are not required to register for the QST system and do not have to collect the tax on their sales, except the sale of real properties. However, unlike other businesses, they may not claim a refund of the QST paid in respect of property and services acquired for their commercial activities (inputs). In fact, small suppliers have the choice of operating their activities outside the field of application of the QST.

This measure was introduced on July 1, 1992 with regard to the suppliers of services and was amended on August 1, 1995 to also cover the suppliers of tangible personal property. It was adopted to avoid imposing an overly cumbersome administrative burden for small businesses, given their low tax remittances.

- **Simplified accounting methods**

Simplified method for charities

Most charities that are registrants for the application of the QST system must use the simplified method to account for the tax, which avoids their having to break down their purchases (inputs) in light of their use in the making of taxable or exempted supplies. Generally speaking, this method enables them to remit only 60% of the tax collected on their taxable sales, other than their sales of capital and real properties. On the other hand, they may generally obtain a rebate of only 50% of the tax paid on their purchases (inputs) other than their purchases of real and capital properties, regardless of whether these purchases pertain to the making of taxable or exempted supplies.

This method, which was introduced on January 1, 1997, was designed to simplify the administration of the QST for charities.

Quick method for small businesses

Small businesses whose annual receipts from taxable sales are not more than $200 000 may use a quick method to account for the QST. This method allows them to pay QST equal to a fixed percentage of their taxable sales, determined according to the type of business they operate, rather than to establish the QST collected on each of their sales and the QST paid on most of their purchases (inputs). The payment of a percentage of taxable receipts makes it possible to obtain a result equivalent to an estimate of the net QST to be remitted. The percentage of the payment is therefore low for businesses with low added value, such as the retail sector (2.7% since January 1, 1998 and 2.3% prior to that date), but higher for other businesses (5.3% since January 1, 1998 and 4.6% prior to that date).

This method was introduced on August 1, 1995 and was intended to simplify the administration of the QST for small businesses.

Quick method for qualifying public service bodies

Qualifying public service bodies (non-profit organizations funded at least 40% by a government or a municipality, municipalities, hospitals and non-profit schools, colleges and universities) may use a quick method to account for the QST. This method allows them to pay an amount of tax equivalent to a fixed percentage (since January 1, 1998, 4.6% for municipalities and 5.9% for other bodies, as against 5% prior to that date for all bodies) of their taxable receipts instead of establishing the QST collected on each of their sales and the QST paid on most of their purchases (inputs). The payment of a percentage of taxable receipts makes it possible to obtain a result equivalent to an estimate of the net QST to be remitted.

This method was introduced on July 1, 1992 and was designed to simplify the administration of the QST for qualifying public service bodies.

Simplified calculation methods of ITRs and partial QST rebates

Small businesses and qualifying public service bodies which, during the preceding fiscal year, had receipts from taxable sales of no more than $500 000 and made purchases of no more than $2 000 000 may use, respectively, the simplified calculation method of input tax refunds (ITRs) or the simplified calculation method of partial QST rebates in order to determine the ITRs or the partial rebates to which they are entitled. These methods allow them to calculate their ITRs or their partial QST rebates by multiplying the total of their purchases entitling them to such rebates by a factor of 7.5/107.5 (6.5/106.5 prior to January 1, 1998) and, in the case of public service bodies, by also multiplying the total by the partial QST rebate rate applicable to them. Thus, they do not have to determine the amount of the QST paid on each of their purchases (inputs). These methods do not modify the way by which small businesses and public service bodies bill or collect the QST or the manner in which they declare the QST collected.

These methods were introduced into the QST system on August 1, 1995 and were intended to simplify the calculation by small businesses of ITRs and by qualifying public service bodies of partial QST rebates.

– Other tax expenditures

• Non-taxable imports

Certain property brought into Québec is not subject to the QST, notably property whose price does not exceed $20 that is sent from outside Canada to Québec residents, property purchased by a Quebecer during a stay of at least seven days outside Canada if the value of such property does not exceed a certain limit, now set at $750, and the personal effects of an individual arriving in Québec to take up permanent residence.

These exemptions were provided to simplify the administration of the QST.

• Exemption granted to the Société Saint-Jean-Baptiste de Montréal

The Société Saint-Jean-Baptiste de Montréal and the separate civil entities formed by it (Fondation Langelier, Fondation Du Prêt d'Honneur and Comité de la Fête Nationale de la Saint-Jean Inc.) are not subject to the QST in accordance with a provision of the *Loi refondant la charte de l'Association Saint-Jean-Baptiste de Montréal*, which stipulates that these entities are exempt from all provincial taxes.

This exemption, which was introduced in 1912, is granted because the Société Saint-Jean-Baptiste de Montréal is considered to be a public utility.

– **Tax measures shown for information purposes**

- **Entertainment expenses**

The QST system allows small or medium-size businesses to claim a refund of the QST paid in respect of property and services acquired in the course of their commercial activities (inputs). However, such businesses may generally recover only 50% of meals and entertainment expenses (large businesses are not entitled to a refund of the QST paid in respect of such expenses).

This measure recognizes the fact that meal and entertainment expenses are incurred in the course of businesses' commercial activities. However, given the element of personal consumption inherent in such expenses, the QST paid in this respect and which is subject to a refund is limited to 50%.

However, certain expenses are exempted from the application of the 50% limit, i.e. the cost of a subscription or block purchases of tickets for symphony concerts or the concerts of classical or jazz groups, opera performances, dance or vocal performances, or plays, provided that the cultural events take place in Québec.

- **Rebate granted to employees and partners**

Under the QST system, the employee of a business is entitled to a rebate of the QST paid in respect of expenses deducted in the calculation of his employment income for income tax purposes. Similarly, an individual who is a partner in a partnership is entitled to a rebate of the QST paid in respect of the expenses incurred outside of the partnership and which are deducted in the calculation of his income derived from the partnership.

3.2 Tax on insurance premiums

- **Exemption with respect to an individual policy of insurance of persons**

The 9% tax on insurance premiums does not apply to individual life insurance premiums and to individual insurance against sickness or accident premiums. This exemption was introduced on December 19, 1985.

- **Reduction in the tax rate for automobile insurance**

The regular rate of the tax on insurance premiums (9%) was reduced on May 1, 1987 by four percentage points in respect of automobile insurance premiums. However, this reduction does not apply to the amounts payable to the Société de l'assurance automobile du Québec.

- **Exemption with respect to certain compulsory insurance plans**

The tax on insurance premiums does not apply to amounts paid under the following laws:

– the *Act respecting industrial accidents and occupational diseases*;

– the *Crop Insurance Act*;

– the *Act respecting farm income stabilization insurance*;

– the *Act respecting the Régie de l'assurance-maladie du Québec*;

– the *Act respecting the Québec Pension Plan*;

– the *Employment Insurance Act*.

This measure was implemented on April 24, 1985 and was adopted to avoid subjecting most insurance plans of a social nature that were compulsory under specific laws.

3.3 Fuel tax

- **Reduction in the rate of the tax in certain regions**

Border regions

Since January 15, 1982, a reduction in the regular rate of the tax on gasoline, now set at 15.2 cents per litre, has been granted on gasoline sold in regions bordering on an American state or a Canadian province. The reduction granted, which is established according to a maximum distance of 20 km from the border, ranges from 2 to 8 cents per litre in regions bordering on the United States and from 1 to 4 cents per litre in regions bordering on Ontario, New Brunswick and Labrador (until May 31, 1997, the reduction granted in regions bordering on New Brunswick and Labrador ranged from 2 to 8 cents per litre).

This reduction is intended to maintain the competitive position of Québec retailers situated near the border in relation to their competitors located in jurisdictions bordering on Québec.

Remote regions

Since December 19, 1985, a reduction in the regular rate of the fuel tax, which is now 15.2 cents per litre of gasoline and 16.2 cents per litre of fuel oil, has been granted on fuel sold in regions far from major urban centres. This reduction applies essentially to peripheral regions, which designates genuinely remote territories, and specified regions, which are actually buffer zones between the peripheral regions and regions that do not benefit from a reduction in the fuel tax. The reduction granted is 4.65 cents per litre of gasoline and 3.82 cents per litre of fuel oil in peripheral regions (6.65 cents per litre of gasoline and 5.82 cents per litre of fuel oil prior to July 1, 1995), and 2.3 cents per litre of gasoline and 1.9 cents per litre of fuel oil in specified regions (3.3 cents per litre of gasoline and 2.9 cents per litre of fuel oil prior to July 1, 1995).

This measure was intended to reduce the price of fuel, which is generally higher in regions that are far from major urban centres, because of transportation costs.

- **Reduction in the rate of the tax for aircraft and railroad locomotives**

A reduction in the fuel tax rate has been granted in respect of aircraft since 1972 and railroad locomotives since 1980. The regular rate of the tax of 15.2 cents per litre of gasoline and 16.2 cents per litre of fuel oil is reduced to 3 cents per litre when the fuel is purchased to supply aircraft or railroad locomotive engines.

This reduction is intended to avoid the shifting of economic activity.

- **Exemptions and refunds granted to farmers and fishers**

Persons whose main occupation is farming or fishing (or the processing and the marketing of fish) are exempt from the tax or are entitled to a tax refund in respect of fuel oil or gasoline used to supply, as the case may be, farm machinery (except an automobile or truck) or fishing boat engines, to the extent that the equipment has been used for farm work or fishing.

These measures, introduced in 1935 (refunds relating to gasoline) and in 1972 (exemptions pertaining to fuel oil), were designed to foster economic development and bolster the competitive position of Québec businesses operating in the farming and fishing sectors by reducing their production costs.

- **Exemptions and refunds granted to the industrial sector**

Under the modifications made to the fuel tax system in 1935 and 1972, the industrial sector benefits from relief as regards the fuel used in certain activities:

- the tax does not apply to solvents derived from petroleum or to gasoline intended for chemical uses;

– the tax paid is refunded in respect of gasoline, bunker fuel or crude oil used to supply a non-propulsion (stationary) engine and gasoline used for the purpose of scientific research, experimentation or demonstration (except the supply of propulsion engines).

These measures are intended to foster economic development and enhance the competitive position of the Québec industrial sector.

- **Exemption and refund granted to the aviation sector**

The fuel tax system provides for relief with respect to fuel used in certain airline activities. Under these fiscal measures:

– since June 23, 1983, the tax has not applied to aviation fuel used on an international flight;

– the tax paid on gasoline used to supply an aircraft engine while being tested on the ground or in the air has been refunded since 1980 (prior to 1980, the tax was not refunded but the rate of the tax was reduced).

These measures are intended to avoid the shifting of economic activities.

- **Exemption for commercial vessels**

The fuel tax does not apply to bunker fuel or crude oil used to supply the engine of a commercial vessel.

This measure was implemented in 1972 and is intended to foster economic development and enhance the competitive position of businesses operating commercial vessels by reducing their production costs. It also makes it possible to avoid shifting the economic activities of these businesses.

- **Exemption for propane gas**

Since March 26, 1997, the fuel tax has not applied to propane gas.

This exemption is intended to encourage the conversion of road vehicles to this clean fuel, consolidate the propane gas distribution network and help maintain and create jobs.

- **Refund granted to farm, forest and mining businesses**

Since April 19, 1978, farm, forest and mining businesses have been entitled to a refund of the tax paid on fuel used to operate road vehicles registered for off the road use and used in their operations.

This measure is intended to foster economic development and enhance the competitive position of the Québec farming, mining and forest industries by reducing their production costs.

- **Reimbursement granted for public carriers**

Public carriers are entitled to a partial reimbursement of the tax paid (33 1/3%) on fuel used to supply the engine of buses assigned to provide public transport, other than school, chartered or airport transportation, or buses used to transport groups of people for activities shared by these people.

This measure was introduced in January 1984 in order to reduce the price of public bus transportation, which is a public service that satisfies the daily transportation needs of a considerable number of people. To this end, public carriers must show that their rates have been adjusted to take this reimbursement into account.

- **Refund regarding fuel used to supply an engine for stationary purposes of the equipment of a vehicle**

Since July 1, 1999, the fuel tax system provides for a refund of the tax paid regarding gasoline or fuel oil used to supply the propulsion engine of a motor vehicle, but only on the portion of such fuel required to activate a stationary equipment of the vehicle by means of a power take-off, provided such equipment is used for commercial or public purposes.

In order to facilitate the administration of the measure, ensure a degree of uniformity in its application and prevent possible abuse in this regard, the quantity of fuel used for stationary purposes of the vehicle's equipment is established using prescribed percentages.

The granting of this refund is in line with the underlying principle of the fuel tax system, which is aimed essentially at taxing products used to supply propulsion engines.

3.4 Tax and duties on alcoholic beverages

- **Reduction in rates of the specific tax and duty regarding beer sold by microbreweries**

A reduction in the rates of the specific tax and duty applicable to beer is granted in respect of products sold by microbreweries producing beer in Québec. The rates of the specific tax and duty are reduced by 67% (50% prior to March 15, 2000) on the first 25 000 hectolitres of beer sold in a calendar year and by 33% (25% prior to March 15, 2000) on the next 125 000 hectolitres (50 000 hectolitres prior to March 15, 2000), equivalent to 0.0132 cent per millilitre and 0.0268 cent per millilitre, respectively.

This reduction, which was implemented on May 10, 1995, is intended to improve the competitive capacity of small beer producers.

- **Reduction in rates of the specific tax and duty regarding alcoholic beverages sold by a small-scale producer**

A reduction in the rates of the specific tax and duty applicable to alcoholic beverages is granted on the first 1 500 hectolitres of alcoholic beverages, other than beer, sold by a small-scale producer who produces such beverages in Québec. On March 26, 1997, the rates of the specific tax and duty were first reduced by 50% on the first 1 000 hectolitres of alcoholic beverages sold in a calendar year and by 25% on the next 500 hectolitres. This reduction was subsequently enhanced on April 1, 1998, to 100% on the first 1 500 hectolitres thus sold.

This reduction is intended to improve the competitive capacity of small producers of wine, cider and any other alcoholic beverage and grant them tax treatment similar to that accorded small beer producers since May 10, 1995.

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