



Canadian tax alert

2013-2014 Quebec budget highlights

November 20, 2012

Economic context

Finance Minister Nicolas Marceau today tabled the 2013-2014 Quebec budget. Listed below are the tax highlights contained therein.

- The government aims to **balance the budget in 2013-2014** and to maintain a balanced budget thereafter.
- **In 2012, Quebec's economy grew at a slower pace than had been forecast** in the 2012-2013 budget, with real gross domestic product (GDP) expected to grow by 0.9%, and the government is forecasting 1.5% GDP growth in 2013 and 2.0% in 2014.
- **Growth in program spending has been limited to 1.9% in 2012-2013 and to 1.8% in 2013-2014 and, for 2014-2015, growth in program spending has been reduced from 3.0% to 2.4%.**
- The government is **cancelling the gradual 1¢/kWh increase in the price of heritage electricity** for the period of 2014 to 2018 and will replace it with an annual indexing of the heritage pool rate.
- Given the cancellation of the increase in electricity prices, the **resulting revenues that that were to be paid into the Generations Fund will be fully offset** by capped public capital investments and by additional payments to the Generations Fund from various sources, including: amounts relative to the annual indexing of the price of heritage electricity, an increase in the specific tax on alcoholic beverages, all mining royalties as of 2015-2016, and Hydro-Québec's future savings resulting from the decision not to refurbish the Gentilly-2 nuclear power plant.
- To stimulate private investment, a **Quebec economic development bank will be created**. It will combine the activities of *Investissement Québec* and the front-line activities of the *Ministère des Finances et de l'Économie du Québec*, and its mission will be to support business growth and investment in the regions of Quebec.
- The government is **taking special action to support private investment in several areas**, including the development of Northern Quebec, mining development, natural resources processing, the development of sustainable transportation and clean technology, energy, agriculture, tourism, the social economy and the life sciences industry.

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Measures concerning business

- To standardize the **tax treatment of refundable tax credits** that a taxpayer who operates a business may receive, the tax legislation will be amended to remove the presumption according to which these refundable tax credits are deemed not to be an amount of government assistance; going forward, these refundable tax credits will be required to be included in income. This amendment will apply to refundable tax credits that a taxpayer receives after November 20, 2012 and that relate to expenditures incurred by the taxpayer for a taxation year starting after that day.
- The **tax credit for manufacturing and processing equipment investments** will be amended to extend the tax credit's eligibility period to property acquired before January 1, 2018 (rather than January 1, 2016 as had been previously planned, in certain cases). Moreover, the rate of the tax credit applied to qualified property acquired after November 20, 2012 and to be used mainly in the eastern part of the Bas-Saint-Laurent administrative region or in an intermediate zone will be increased by five percentage points (to 35% in the Bas-Saint-Laurent administrative region and 25% in intermediate zones). However, a corporation may not receive this increase in the tax credit for investments if that corporation, or a corporation with which it is associated during a given taxation year, receives a job creation tax credit for a calendar year ending in that taxation year.
- The **refundable tax credit for research and development (R&D) salaries** will be increased temporarily for a period of five years so that an eligible biopharmaceutical corporation may receive a refundable tax credit equal to 27.5% of its eligible R&D expenditures (instead of the current rate of 17.5%). To benefit from this higher rate, the corporation will be required to obtain an initial certificate and an eligibility certificate for each taxation year from *Investissement Québec*. Generally speaking, the higher rate will apply to eligible R&D expenditures incurred after November 20, 2012 and before January 1, 2018; however, the R&D expenditures incurred after November 20, 2012 under a research contract entered into before that day, will also give rise to the higher tax credit rate. Lastly, in the case of an eligible biopharmaceutical corporation that qualifies as a small or medium enterprise, the credit rate applicable to the first \$3 million in eligible expenses will remain unchanged at 37.5% where assets calculated according to the applicable rules will be under \$50 million. The credit will be reduced linearly from 37.5% to 27.5% for companies whose assets range between \$50 and \$75 million.
- The **elimination of the tax holiday for a major investment project** will be effective as of November 20, 2012, but corporations that benefited from this tax holiday may continue to do so until it expires in accordance with the current rules. However, the annual certificate application for a major investment project should be submitted before the expiry of the fifteenth month following the end of the applicable fiscal year and, where the annual certificate application is for a taxation year or fiscal year ended before November 20, 2012, such application must be submitted to the *Ministère des Finances et de l'Économie* before February 20, 2014.
- To replace the tax holiday for a major investment project, a **new tax holiday for large investment projects ("THI")** will be introduced with respect to activities in the manufacturing, data processing and storage, wholesale trade or warehousing sectors. A corporation that begins and carries out a large investment project in Quebec after November 20, 2012 may benefit from a tax holiday on the income from its eligible activities and from employer contributions to the Health Services Fund regarding the portion of wages paid to its employees that is attributable to the time they spend on such activities. The investment project must satisfy the requirement that a minimum investment threshold of \$300 million be achieved and maintained, and the initial certificate application must be submitted to the *Ministère des Finances et de l'Économie* before November 21, 2015. This tax holiday will last for ten years and may not exceed 15% of the total eligible investment expenditures relating to such project.
- As previously announced, the portion of the **compensation tax on financial institutions** that is attributable to the impact on public finances of granting input tax refunds to suppliers of financial services will be eliminated as of January 1, 2013.
- However, the rates applicable from January 1, 2013 to the two components of the **temporary contribution by financial institutions** will be increased and will apply until March 31, 2019. Transitional measures are planned. The temporary contribution will be set at:

- for amounts paid as wages, a rate of 2.8% (instead of 1.9%) in the case of a bank, a loan corporation, a trust corporation or a corporation trading securities; a rate of 2.2% (instead of 1.3%) in the case of a savings and credit union; and a rate of 0.9% (instead of 0.5%) in the case of any other person.
- for insurance premiums and amounts established regarding insurance funds, a rate of 0.3% (instead of 0.2%).

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Measures concerning individuals

- As of the 2013 taxation year, a **fourth bracket**, which will be comprised of taxable income over \$100,000, **will be added to the personal income tax table**. A rate of 25.75%, representing an increase of 1.75%, will apply to this bracket. Deductions at source and the instalment requirements for 2013 will reflect the addition of this fourth bracket.
- Various amendments must be made to the tax legislation to reflect the fact that the personal income tax table will include a fourth tax bracket. For example, to determine the **alternative minimum tax**, the proportion of capital gains realized that must be taken into account in the calculation of adjusted taxable income will be raised from 75% to 80% as of the 2013 taxation year. Likewise, the withholding tax rate on the **disposition of certain taxable Quebec property by a non-resident**, such as immovable property located in Quebec, will be raised from 12% to 12.875% for all dispositions planned or carried out after December 31, 2012.
- The addition of a fourth tax bracket will not result in any change to the rate used to convert basic personal amounts into non-refundable tax credits. Thus, the conversion rate will continue to be 20%. Moreover, the conversion rate for the eligible amount of an individual's gifts that exceed \$200 will remain unchanged, at 24%.
- The **health contribution will vary**, as of 2013, on the basis of an individual's income, instead of on the basis of family income. An individual whose income for the year is less than \$18,000 will not be required to pay any health contribution for 2013, while an individual whose income for the year is equal to or greater than \$150,000 will have to pay the maximum health contribution of \$1,000. The health contribution will also be subject to deductions at source. Lastly, the amount of instalment payments will take into account the new health contribution as of 2013.
- A **refundable tax credit for youth activities** will apply to amounts paid after December 31, 2012 for the registration or membership of an eligible child (whose family's income does not exceed \$130,000) in a recognized program for activities that take place after that date. Recognized programs are very similar to those eligible under the non-refundable Children's Fitness Tax Credit and the non-refundable Children's Arts Tax Credit granted by the federal government.
 - The amount of the credit for children who, at the beginning of the year, are at least 5 but not yet 16 years of age corresponds to 20% of the lower of total eligible expenses or the applicable limit for the year.
 - The limit on eligible expenses per child will be set at \$100 for the 2013 taxation year and, subsequently, will be gradually increased by \$100 per year up to \$500 per child.
 - For a child with a severe and prolonged mental or physical impairment, who is not yet 18 years of age, the limit on eligible expenses doubles (\$200 in 2013).
- The **excess earned income cap for the tax credit for workers age 65 or over**, which eliminates income tax payable on a portion of employment income exceeding \$5,000, will remain at \$3,000 for an indefinite period, even though it had been expected to increase progressively to \$10,000 as of 2016.
- For taxation years ending after March 19, 2012, the rate for determining the income tax payable by **inter vivos trusts** (including mutual fund trusts and specified investment flow-through trusts) now corresponds to the highest rate applicable for the calculation of the income tax payable by an individual. This rate will be raised from 24% to 25.75% as of the 2013 taxation year. The 2013 instalment requirements will reflect the increased tax rate.

- To reflect the fact that the applicable tax rate for inter vivos trusts will be increased, the tax rate to which **inter vivos trusts not resident in Canada** will be subject on property income derived from the rental of immovable property located in Quebec will be raised from 5.3% to 7.05% as of the 2013 taxation year.
- The legislation will be amended to add three situations where a trust liable for Quebec tax or that owns rental property in Quebec is required to file a tax or information return. These amendments will apply to trusts for their taxation years beginning after November 20, 2012.

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Other tax measures

- The **specific tax on tobacco products has been increased**. The rates of this tax will be changed as follows as of November 21, 2012:
 - The rate of the specific tax of 10.9 cents per cigarette will be raised to 12.9 cents per cigarette;
 - The rate of the specific tax of 10.9 cents per gram of loose tobacco or leaf tobacco will be raised to 12.9 cents per gram;
 - The rate of the specific tax of 16.77 cents per gram of any tobacco other than cigarettes, loose tobacco, leaf tobacco and cigars will be raised to 19.85 cents per gram;
 - The minimum rate applicable to a tobacco stick will be raised from 10.9 to 12.9 cents per stick.

Persons not under an agreement with Revenu Québec who sell tobacco products in respect of which the specific tax has been collected in advance or should have been, will be required to take an inventory of all such products that they have in stock at midnight November 20, 2012 and remit, before December 22, 2012, an amount equal to the difference between the tax applicable at the new rates and the tax applicable at the rates in effect prior to midnight, November 20, 2012.

- The **specific tax on alcoholic beverages has been raised** as of 3 a.m. November 21, 2012. The new rates of the specific tax applicable to alcoholic beverages sold for consumption in an establishment will be \$0.82 per litre for beer (up from \$0.65) and \$2.47 per litre for all other beverages (up from \$1.97), while those applicable to alcoholic beverages sold for consumption other than in an establishment will be \$0.50 per litre for beer (up from \$0.40) and \$1.12 per litre for other beverages (up from \$0.89).

The existing reductions of 67% and 33% to the specific tax rates, applicable to the first 150,000 hectolitres of beer sold annually by certain microbrewers, will also apply to the new specific tax rates. This will also be the case for the reductions of 100% and 85% applicable to the first 15,000 hectolitres of alcoholic beverages other than beer sold in a year by certain small-scale producers. Persons who sell alcoholic beverages in respect of which the specific tax has been collected in advance or should have been, will be required to take an inventory of all such beverages that they have in stock at 3 a.m. on November 21, 2012 and remit, before December 22, 2012, an amount equal to the difference between the tax applicable at the new rates and the tax applicable at the rates in effect prior to 3 a.m. on November 21, 2012.

For more information, please see the budget documents on the site of the [Ministère des Finances et de l'Économie](#).

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