

Canadian tax alert

2016-2017 Quebec budget highlights



Yesterday, Finance Minister Carlos Leitão tabled the **2016-2017 Quebec budget**. The minister confirmed that Quebec returned to a balanced budget in fiscal 2015-2016. The budget is expected to again achieve **fiscal balance for 2016-2017**. Some of the key assumptions used in developing the budget include GDP growth of 1.5% in 2016 (compared to 1.1% in 2015) and a 2.7% increase in program spending for 2016-2017 (compared to 1.7% in 2015-2016). To reduce the debt burden, the government will maintain payments to the Generations Fund, which will reach \$2 billion in 2016-2017. As of March 31, 2016, the gross debt to GDP ratio will reach 55% but will then start to decline. The government will step up the fight against tax evasion and aggressive tax planning, particularly in sectors where tax losses remain high. **The government is using some of the room it now has in the budget to ease the tax burden, reduce the debt, and strengthen funding to public services.**

Listed below are the tax highlights presented in yesterday's budget.

Tax measures for individuals

The budget announced changes to the plan to **reduce the health contribution** so that it will be entirely eliminated for all taxpayers in 2018. An adult with less than \$18,570 in income will not be required to pay any contribution. For taxpayers whose income is greater than the minimum threshold, their health contribution will be adjusted according to income brackets. The maximum contribution for each income bracket will be, respectively, \$50, \$175 and \$1,000 in 2016 and \$0, \$70 and \$800 in 2017.

The budget has announced the creation of a **new refundable tax credit called “RénoVert”**. This credit is for individuals who have a qualified contractor carry out recognized eco-friendly renovations (i.e., work that has a positive energy or environmental impact) on their principal residence or cottage. The work must be carried out under an agreement signed after March 17, 2016 but before April 1, 2017. Capped at \$10,000, the financial assistance provided through this credit will be 20% of qualified expenditures in excess of \$2,500.

Starting in 2016, the **refundable tax credit related to the work premium** will be increased for households without children. For these households, the rate for the purpose of calculating the maximum amount of the work premiums will be raised by 2%, which represents an increase of \$161 for a person living alone and \$252 for a couple without children.

Beginning in 2016, for the purposes of the **tax shield** (employment incentive measure), the maximum increase in eligible work income from the previous year (for the purposes of calculating work premiums and refundable tax credits for childcare expenses) will be raised from \$2,500 to \$3,000 per worker.

As of 2016, the limits on donations eligible for the **tax credit for donations** will be eliminated and, as of 2017, the tax credit for individuals whose marginal tax rate is greater than 24% will be enhanced.

As of 2018, the age of eligibility for the **tax credit for experienced workers** will be 62 years. For this new category of workers, the maximum amount of eligible work income on which the tax credit will be calculated is \$4,000.

Tax measures for businesses

As of 2017, eligible specified employers will be able to claim an additional reduction in the **Health Services Fund** contribution rate. This rate will gradually decrease from 1.6% to 1.45% over a five-year period beginning in 2017 for small- and medium-sized businesses (SMBs) in the primary and manufacturing sectors. Furthermore, the contribution rate of SMBs in the service and construction sectors will gradually decrease from 2.7% to 2% over a five-year period beginning in 2017. The *Act respecting the Régie de l'assurance maladie du Québec* will be amended accordingly.

For taxation years beginning after December 31, 2016, the eligibility criteria for the **small business deduction** (SBD) requiring a minimum number of employees will be replaced by an eligibility criteria requiring a minimum number of hours worked. Corporations, in the primary and manufacturing sectors, will be able to claim an SBD at the highest SBD rate, using either the qualification criterion based on the minimum number of hours worked or the qualification criterion based on their level of activity in these sectors.

After consultation, the Ministère des Finances has retained the seven eligibility criteria that must be met by a taxpayer to qualify for the tax relief in the **transfer of family businesses** announced in the March 26, 2015 budget speech. This relief will also apply to dispositions of shares made after March 17, 2016 rather than after December 31, 2016 as announced initially.

The budget provides for the implementation of an **income-averaging mechanism for forest producers**. This measure provides for a deduction not exceeding 85% of a maximum amount of \$200,000 (**from certified commercial activities**) in calculating the taxable income of an

eligible taxpayer who is either a **certified forest producer** or a **member of a qualified partnership**. The amount previously deducted will be added to the taxpayer's taxable income for the seven subsequent years at the rate of at least 10% annually. A similar income averaging measure is provided for individuals who are private forest owners for the purpose of calculating the individual contribution to the **Health Services Fund**. This tax relief will apply from March 18, 2016 until December 31, 2020.

A **deduction for innovative corporations (DIC)** will be introduced for qualifying manufacturing corporations whose paid-up capital for the previous taxation year (including that of associated corporations) is \$15 million or more. The qualifying corporation may deduct, in computing its taxable income, an amount equal to the specified annual percentage of the lesser of the following amounts: i) the total value of all qualified patented features incorporated into qualified property that the corporation sold or rented during that year, or ii) the DIC ceiling. The value of a qualified patented feature incorporated into qualified property will correspond to the portion of the net income earned from the sale or rental of the property that can reasonably be attributed to the additional value added to the income by this feature for the year. The DIC ceiling will be, for a particular year, 50% of the net income earned from the sale or rental of the qualified property recorded in a separate account required to be maintained by the corporation for that purpose for the year. In addition, a qualified patented feature must result, in whole or in part, from research and development (R&D) carried out by the corporation (or one of its associated corporations) in Quebec. This R&D must also have given rise to a refundable Quebec R&D tax credit. Furthermore, the corporation must have made a sustained investment in innovation, i.e., for the five-year period preceding the year in which an application for a patent was filed under a patent law concerning a qualified patented feature incorporated into qualified property, the total eligible R&D expenditures paid by the corporation (or one of its associate corporations) must be at least \$500,000. This new deduction will apply in respect of a corporation's taxation year beginning after December 31, 2016 and in respect of patent applications under a patent law for qualified patented features that were filed after March 17, 2016.

Legislation will be amended to extend the scope of the **tax credit for the integration of information technologies in manufacturing and primary sector SMBs** to corporations active in wholesale trade (NAICS code 41) and retail trade (NAICS codes 44 and 45). A corporation will be eligible for this credit for a taxation year if the proportion of its qualified activities—made up of its manufacturing or processing activities, primary sector activities, wholesale trade activities or retail trade activities—for the taxation year exceeds 50%. This change will apply in respect of a corporation's taxation year ending after March 17, 2016.

Legislation will be amended so that an expenditure will qualify for the **refundable tax credit for technological adaptation services** only if it concerns an eligible liaison and transfer service provided in Quebec or participation in training and information activities given in Quebec in connection with an eligible liaison and transfer service. In general, this measure will apply to expenditures incurred on or after March 18, 2016.

A **temporary refundable tax credit for major digital transformation projects** has been introduced. This credit will apply to eligible digitization contracts concluded after March 17, 2016, and before January 1, 2019. It will target projects that will create at least 500 new jobs in Quebec and will be maintained for a period of seven years. To qualify as an eligible digitization contract, the contract must first be assigned a qualification certificate from Investissement Québec. Essentially, eligible digitization activities are activities that enable the

digital transformation of traditional functions that were formerly carried out outside Quebec by a person other than the eligible corporation. The tax credit will equal 24% of the eligible salary paid to an eligible employee during the first two years of the corporation's eligibility period, without exceeding \$20,000 per employee annually. For the remaining time in the seven-year period, the corporation can also obtain a certificate for the tax credit for the development of e-business (TCEB) for an eligible employee assigned to carry out eligible digitization activities, provided all the other applicable conditions for the TCEB are met.

The rates of the **refundable tax credit for resources** regarding eligible expenses related to mining resources incurred on or after March 18, 2016 in the **Near North** or **Far North** will be increased. The tax credit rates will increase from 31% to 38.75% and from 15% to 18.75% depending on the type of eligible corporation.

For the application of the **refundable tax credit for Quebec film and television productions**, the eligibility conditions for a category of films related to the age of the audience and the broadcasting time will become more flexible. Consequently, the *Act respecting the sectoral parameters of certain fiscal measures* will be amended to substitute references to "minors" for references to "children under 13 years of age." These amendments will open up access to the base rates of the refundable tax credit of 40% and 36% in lieu of the 32% and 28% rates. These amendments will apply to applications for advance rulings or applications for certificates submitted to Société de développement des entreprises culturelles after March 17, 2016.

The tax legislation will be modified so that the amount of financial assistance granted under the Quebec City *Soutien à la production cinématographique et télévisuelle* (film and television production) program and granted by the Society for the Celebration of Montreal's 375th Anniversary will **be excluded for the purposes of certain tax credits in the cultural sector**, including the tax credit for Quebec film and television productions and the tax credit for film production services. These changes will be effective from January 1, 2015 for the Quebec City film and television production program and from January 1, 2012 for the financial assistance granted by the Society for the Celebration of Montreal's 375th Anniversary.

The tax legislation will be amended to stipulate that a **contribution made for political purposes**, illegally or otherwise, directly or indirectly, will not be deductible in calculating the income a taxpayer earns from a business or property. This amendment will apply as of March 18, 2016.

The budget proposes changes to the application of the **enhanced credit for donations of food products** made by food processors. The list of recognized donees will be expanded to include any registered charity that is an associate member (a local organization offering food assistance services in a particular region) in the Food Banks of Quebec network for donations of eligible agricultural products and eligible food products made after March 17, 2016.

Other measures

Please refer to the budget documents for the changes announced to the following tax provisions:

- Amendments to the *Act respecting duties on transfers of immovables* to ensure its integrity and fairness
 - Tightening of certain provisions granting an exemption from paying transfer duties

- Change to the transfer duties due date and introduction of a disclosure mechanism for transfers not registered in the land register
- Introduction of an exemption from paying transfer duties on the transfer of an immovable between former de facto spouses
- Recognition of an exemption from duties granted to certain international governmental organizations
- Changes to government assistance for capitalization of Capital régional et coopératif Desjardins fund
- Temporary maintenance of the rate increase to the tax credit related to the acquisition of shares in Fondation
- Changes to the investment requirements for tax-advantaged funds
- Amendments to the *Mining Tax Act*
 - Change to the calculation of a person's profit margin for the fiscal year in which the person ceases to be an operator
 - Changes to the rules pertaining to the transfer of property with no immediate tax impact and the rules pertaining to the deemed alienation of property when a person ceases to be an operator
 - Changes to the rules pertaining to the determination of the value of gemstones
- Allocation of a refund to stand in lieu of the financial guarantee required under the *Mining Act*
- Increase in the threshold for the tax exemption on logging operations
- Revision of the farm property tax credit program
- Simplification of the registration procedure for charities

Conclusion

Minister Leitão's budget represents the government's second consecutive year of balanced budgets and uses part of the recovered room to ease the tax burden, reduce the debt and strengthen funding for public services.

However, the budget is based on several assumptions involving risks that could impact expected developments in Quebec's economy. These risks include a generalized slowdown in the global economy, unexpected changes in the Canadian economy, a different price path for oil, weaker economic growth in the U.S. and uncertainties in the geopolitical climate.

For further details, we refer you to the [Ministry of Finance website](#).



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