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Canadian tax alert

2019-2020 Quebec budget highlights

March 21, 2019

Finance Minister Eric Girard today tabled the 2019-2020 Quebec budget, the first from the Coalition Avenir Québec government, entitled “**Your priorities, your budget**.”

For 2018-2019, the Minister is announcing a **$2.5 billion surplus,** which will be allocated to the stabilization reserve. The budgetary balance, within the meaning of the *Balanced Budget Act,* will be nil after the reserve. This balance takes into account the $3.1 billion payment into the Generations Fund.

For the 2019-2020 to 2023-2024 fiscal years, the government projects that the **budget will remain balanced** without having to use the stabilization reserve.

The Minister explained that the budget is undertaking major initiatives designed to address the concerns of the population and implement a long-term vision. The government’s actions are prioritizing health, education and the economy, but measures are also being taken to reduce the tax burden on taxpayers, accelerate the transition to a greener economy, and improve support for communities.

The budget stresses that economic expansion and improving the living standards of Quebecers will depend more on **productivity gains;** as such, the budget states that the government has already deployed measures—notably an accelerated capital cost allowance—to support business investment and productivity. The government also believes that the substantial investments this budget makes in education will help boost productivity. The Minister acknowledged that Quebec’s **productivity lags considerably behind** Canada as a whole (20.7%) and Ontario (17.7%). The Minister is aiming to close this gap through **increased non-residential business investment.**

Fiscal/economic outlook

Some of the key assumptions underlying the budget include **real GDP growth of 1.8% in 2019 and 1.5% in 2020** compared to 2.3% growth in 2018.

Consolidated revenue growth is expected to be 1.8% in 2019-2020 and 3.2% in 2020-2021. Over the same years, consolidated expenditure growth is projected to be 4.7% and 3.2%, respectively.

In 2018-2019, $3.1 billion in revenues was deposited into the Generations Fund. For 2019-2020 and 2020-2021, $2.5 billion and $2.7 billion, respectively, will be deposited in the Generations Fund.

As the government announced in its fall 2018 update, $10 billion over two years will be used from the Generations Fund to reduce Quebec's debt on the financial markets and lower the government’s interest expense.

Quebec’s gross debt is at its lowest level in over 20 years. On March 31, 2019, the gross-debt-to-GDP ratio was at 46.1%, down 2.1 percentage points from March 31, 2018. This ratio is expected to reach 42.3% of GDP on March 31, 2024 and continue decreasing to 41.5% on March 31, 2026.

Quebec’s unemployment rate fell to 5.5% in 2018 and is expected to reach 5.4% in 2019 and 5.3% in 2020.

Business tax measures

The budget made no changes to corporate tax rates. As such, the 2019 corporate tax rates remain as follows:

Corporate Tax Rates for Quebec Companies – 2019 Calendar Year		
	Quebec	**Combined rates (federal and Quebec)**
General tax rate, manufacturing and processing, investment	11.6%	26.6%
Tax rate for small businesses	6.0%	15.0%
Tax rate for small businesses (manufacturing, processing and primary sector)	4.0%	13.0%
Tax rate for small businesses (investment)	11.6%	50.27%

Note: In Quebec, the taxable income of small businesses that do not meet certain eligibility requirements will be taxed at the general rate of 11.6%, for a combined rate of 20.6%.

The budget is proposing to introduce a **refundable tax credit for SMBs to foster the retention of experienced workers**, the aim being to encourage small and medium-sized businesses to hire or retain workers aged 60 or over. Qualified corporations or qualified partnerships with payrolls below $7 million will be able to claim a tax credit of up to $1,875 annually for each employee who is at least 60 years of age. These amendments will apply in respect of a taxation year ending after December 31, 2018.

The budget is proposing to amend the *Act respecting the sectoral parameters of certain fiscal measures*, particularly the **tax holiday for large investment projects.** Specifically, the capital investment threshold for designated regions will be reduced to $50 million. This amendment will apply to initial certificate applications filed after March 21, 2019 in addition to applications already submitted but that begin to be carried out after March 21, 2019.

The budget is proposing to improve the **tax credit for the reporting of tips,** the main purpose of which is to compensate restaurant and hotel employers for the additional charges and indemnities they incur as a result of declared or allocated tips. The amendments will apply to indemnities in respect of days of leave to fulfill family obligations or days of leave for health reasons paid after December 31, 2018.

To ensure the fairness and integrity of the tax system and to combat tax evasion, fraud, money laundering and the funding of criminal activities, the government is proposing to take the following measures in 2019-2020:

- strengthen the **mandatory disclosure** mechanism and improve the **rules for using nominees**;
- block access to public contracts for businesses and promoters that have used abusive tax avoidance strategies;
- promote tax fairness in the **sharing economy** (tourist accommodation sector);
- extend the Attestation de Revenu Québec to **public building cleaning services** to combat unreported work;
- improve tax compliance with respect to **financial market** transactions through the use of a new tax slip;
- strengthen corporate transparency;
- more effectively combat fraud against the government;
- entrust administration of the *Money-Services Businesses Act* to Revenu Québec.

Personal tax measures

This budget did not announce any changes to personal income tax rates. As such, the 2019 personal income tax rates remain as follows:

Personal combined federal and provincial top marginal rates - 2019	
	Rate
Interest and regular income	53.31%
Capital gains	26.65%
Eligible dividends	39.99%
Ineligible dividends	46.25%

The budget is proposing to gradually eliminate the **additional contribution for childcare** over four years starting in 2019.

The budget is proposing to begin gradually standardizing **school tax** rates as of July 1, 2019. The government's goal is to have a single tax rate across Quebec in July 2021.

The budget is proposing to increase the **exemption for income from support payments in respect of dependent children** when calculating the financial assistance granted under government programs.

The budget is proposing to modify the **variable remuneration of certain persons appointed by the government or the National Assembly.** The amendment would permanently eliminate performance-based variable remuneration and bonuses.

The budget is proposing to improve the **tax credit for experienced workers.** As of the 2019 taxation year, the tax credit will be renamed "tax credit for career extension" and the additional tax reduction for workers aged 60 or over could reach a maximum of $1,500. These amendments will apply as of the 2019 taxation year.

Other measures

The budget is proposing mandatory registration to the lodging tax for **operators of digital accommodation platforms.** In respect of any accommodation unit rented in a sleeping-accommodation establishment located in a participating tourist region, registered operators will have to collect or pre-collect the 3.5% tax on the price of every overnight stay, and report and remit the tax, where such a unit is supplied through the operator's digital accommodation platform and billed when the registration is in effect. These amendments will apply from the first day of the first calendar quarter beginning at least 180 days after the date on which the bill implementing these measures is approved.

The budget is proposing to introduce a **sustainable development certification allowance** in the *Mining Tax Act.* The Act will be amended such that an operator may deduct an amount for the sustainable development certification allowance, which may not exceed, for the fiscal year, the amount corresponding to its cumulative sustainable development certification expenses at the end of the fiscal year. Given the introduction of the allowance, the refundable duties credit for an operator's losses will be amended. These amendments will apply to an operator's fiscal year ending after March 21, 2019 in respect of sustainable development certification expenses incurred after that day.

In addition, the budget announced that an enhanced approach is being developed to further reduce **greenhouse gas emissions**. Pending the new approach, the government is allocating nearly $1 billion more to the **fight against climate change** over the next two years, in particular to support communities and businesses in their energy transition process and with transportation electrification.

Harmonization with federal legislation and regulations

Quebec's tax legislation will be amended to include the proposed changes to the federal legislation whereby taxpayers may deduct, when calculating their income, for the year in which the expenses are incurred, up to one-and-a-half times the amount they would otherwise have been able to deduct in respect of their **Canadian development expenses** and **Canadian oil and gas property expenses,** except where the legislation allows a corporation to deduct the total amount of its cumulative Canadian development expenses or its cumulative Canadian development expenses **incurred in Quebec.** These amendments will apply on the same dates as those used for the federal legislative proposals with which they are harmonized. These amendments will apply when the taxation year ends before 2024, with a gradual reduction thereafter.

On March 19, 2019, the day of the federal budget, Finances Québec published Information Bulletin 2019-4 entitled *"Harmonization With Certain* ***Sales Tax*** *Measures of the Federal Budget."* The Bulletin announced that the Quebec sales tax (QST) system will be modified to incorporate (and adapted to reflect the general principles of Finances Québec) the federal health measures applicable to human ova and *in vitro* embryos, foot care devices prescribed by a podiatrist, and multidisciplinary health care services.

Conclusion

The budget appears to be ambitious in several respects, as it is proposing:

- an increase in the potential for wealth creation, with more education, more private investment, more workers and less debt;
- a wealthier economy, balanced public finances and a lower debt level.

The economic and financial forecasts presented in this budget are based on several assumptions. Some of these assumptions have inherent risks that could influence the expected course of the Quebec economy. These risks include a general slowdown in the global economy, which could rein in growth more severely than expected, and in particular:

- tensions in Europe, which, among other factors, are being fuelled by the difficult negotiations surrounding the United Kingdom's exit from the European Union;
- changes in oil prices and other commodities;
- a sharper-than-expected decline in the Canadian residential sector, particularly due to household debt levels, which could slow Quebec's real GDP by about 0.1%.

For additional information, we refer you to the Finances Québec website.

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