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Canadian tax alert

Quebec announces a new progressive health contribution and higher tax on income over \$100,000 for 2013

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On October 10, 2012, Quebec Minister of Finance and the Economy, Nicolas Marceau, announced the government's position on planned changes to the health contribution. Following up on the recent campaign promises of the Parti Québécois, he modified previously announced measures that had been the subject of much criticism by the opposition and members of the business community.

No changes for 2012

First, by announcing that none of the measures would be applicable in 2012 and would only take effect as of 2013, the Minister abandoned any idea of introducing retroactive changes. For 2012, taxpayers resident in Quebec aged 18 and over (except where family income is very low) will have to pay the \$200 health contribution as announced by the previous government.¹

Abandoning changes to tax on capital gains and dividends

The Minister also announced that the government will not increase taxes on capital gains and dividends, contrary to what he had previously told the media, so as not to increase the tax burden on middle-class households that report this kind of income.

A new progressive health contribution

The health contribution will be maintained but it will be calculated more "progressively" in 2013, meaning that it will vary on a sliding scale based on net income. We do not have exact details on the formulae for calculating the contribution, but the Minister provided a table (reproduced below) to show the main income thresholds used to determine the tax contribution applicable to taxpayers resident in Quebec.

New progressive health contribution – 2013	
\$ = Net income threshold	Health contribution
Less than \$18,000	None
\$18,000 to \$20,000	\$1 to \$99
\$20,000 to \$40,000	\$100
\$40,000 to \$42,000	\$101 to \$199
\$42,000 to \$130,000	\$200
\$130,000 to \$150,000	\$201 to \$999
\$150,000 or more	\$1,000

¹ This contribution was \$100 in 2011.

Taxpayers with net income below \$18,000 a year will therefore not have to pay any contribution. Taxpayers with income below \$42,000 will pay less than in 2012, while taxpayers earning over \$130,000 will see a significant increase in their contribution.

Higher individual income tax for the “well off”

Changes to individual income tax have also been announced for 2013. The government plans to add a new tax bracket for income over \$100,000, which will be taxed at the rate of 25.75%. This new tax bracket would therefore increase the current maximum marginal tax rate of 24% on income above \$80,200 by 1.75 percentage points. The Minister said that this new tax will bring the combined federal/Quebec marginal rate to 49.97%.

According to the Minister, the additional revenue from this tax hike will be paid into the Fonds de financement des établissements de santé et services sociaux (FINESS) and, combined with amounts collected from the health contribution, will finance the Quebec healthcare system.

Impact of the changes

The table below provides concrete examples of how the 2013 income tax and health contribution increases will impact taxpayers. Taking the very simple case of a single, childless taxpayer with annual income of \$150,000, the announced measures translate into an additional \$1,675 in income tax and health contribution. The increase rises to \$2,550 for taxpayers earning \$200,000 and then to \$3,425 for taxpayers earning \$250,000.

Tax burden of Quebec residents				
Ordinary income	2012		2013	
	Income tax (Quebec)	Health contribution	Income tax (Quebec)	Health contribution
\$150,000	\$29,003	\$200	\$29,878	\$1,000
\$200,000	\$41,003	\$200	\$42,753	\$1,000
\$250,000	\$53,003	\$200	\$55,628	\$1,000

Note: Provincial income taxes and the health contribution are applied here to the ordinary income of a single, childless taxpayer resident in Quebec and qualifying only for the personal basic amount. The 2013 amounts do not reflect potential indexing. For non-residents of Quebec that pay tax in Quebec, only the income tax increase would apply.

On the other hand, consider how the increase in individual income tax in the highest tax bracket in Quebec will impact competitiveness in that same bracket in Quebec. The table below compares the highest 2013 marginal tax rates on ordinary income in Quebec with three other Canadian provinces:

Top combined marginal tax rates (%) for 2013				
	British Columbia	Alberta	Ontario ¹	Quebec
Ordinary income	43.70%	39.00%	49.53%	49.97%
Note: The table shows the highest combined tax rates (federal and provincial) on ordinary income. ¹ For Ontario, the indicated rate applies to taxable income over \$500,000. The combined rate in Ontario on taxable income between \$132,406 and \$500,000 is 46.41%.				

Tax on income in Quebec will become comparatively quite high for taxpayers earning income of approximately \$130,000 and up. It's not until income reaches \$500,000 that the combined marginal rate of an Ontario taxpayer begins to approximate that of a Quebec taxpayer.

A bill to be tabled

These new measures were announced by way of a press release and a press conference. At this stage, they reflect an intention to make changes to the health contribution as promised by the Parti Québécois in the recent election campaign. The specific details surrounding these measures are still largely unknown. As this is a minority government, it is possible that other changes will be made during negotiations with the opposition parties. Minister Marceau had told the media that he plans to table a budget bill this fall, so any developments in these proposed measures will be watched closely in the weeks ahead.

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