

Canadian tax alert

2015-2016 Quebec budget highlights



Finance Minister Carlos Leitão today tabled the **2015-2016 Quebec budget**. For fiscal 2014-2015, the deficit will be \$2.35 billion, as forecast. The budget confirms a return to a **balanced budget for 2015-2016**, which will be achieved through major cost-cutting measures. Some of the important assumptions used to develop the budget include GDP growth of 1.5% in 2014 and 2.0% in 2015, over 4.4% growth in own-source revenue in 2015-2016 and a 1.5% increase in consolidated expenditures (excluding debt service). The budget maintains deposits in the Generations Fund, totalling \$1.6 billion in 2015-2016. **The budget does not contain any increases in income taxes, other taxes or user fees.**

The government announced that it welcomes the report tabled last week by the Quebec Taxation Review Committee (the Committee) and reaffirmed its commitment to reduce the tax burden on individuals and businesses through amounts generated by economic growth and tight control over public spending.

Of the Committee's 71 recommendations, 28 are being implemented or have resulted in the introduction of a measure in the 2015-2016 budget. Despite this reassuring news, Deloitte is calling on the government to undertake an open dialogue with the main stakeholders on the various proposals made in the Committee's report. A Deloitte summary of the Committee's report is available [online](#).

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

Tax measures for individuals

- The **health contribution** will be gradually eliminated beginning in 2017 and will be removed completely by 2019.
- Beginning in the 2016 taxation year, the **eligibility age for the tax credit for experienced workers** will be reduced, over a two-year period, from 65 years to 63 years. Moreover, the **maximum amount of eligible work income** on which the tax credit is calculated will be increased until it reaches \$10,000 for all workers age 65 and over.
- Beginning in the 2016 taxation year, a new refundable tax credit - the "**tax shield**" - will be introduced. It will offset part of the loss of socio-fiscal transfers (such as the work premium and the refundable tax credit for childcare expenses) and is designed specifically to encourage work following an increase in work income.
- As of taxation year 2016, the **eligibility age for the purposes of the tax credit with respect to age** will gradually be raised until it reaches a **minimum age of 70** for any taxation year after 2019.
- The budget has introduced **changes to the solidarity tax credit**. In particular, the credit will be determined on an annual basis rather than monthly, and will be paid monthly, quarterly or annually.
- As of 2016, a **senior who is a long-time homeowner** can, provided certain conditions are met, receive a **grant to partially offset the municipal taxes** payable on his/her residence following an increase in its value that significantly exceeds the average increase.

Tax measures for businesses

- The **general corporate income tax rate** will be gradually reduced by 0.4 percentage points (11.9% to 11.5%) from 2017 to 2020. The rate reductions will come into force on January 1 of each year.
- The minimum tax rate applicable to the income of small corporations will remain at 8%. Of the companies that are currently eligible for the small business deduction (SBD), generally only the following will maintain eligibility:
 - corporations that employ more than three full-time employees throughout the year; or
 - corporations in the primary or manufacturing sector.The changes to the SBD will apply to taxation years beginning after December 31, 2016.
- The scope of the **additional deduction for manufacturing small and medium businesses (SMBs)** will be expanded to include SMBs in the primary and manufacturing sectors. This amendment will apply to taxation years beginning after December 31, 2016.
- A gradual reduction in the **Health Services Fund (HSF)** contribution for SMBs in the service and construction sectors has been announced. The rate of the HSF contribution for employers in these sectors whose total payroll is equal to or less than \$1 million will decrease from 2.7% to 2.25% over a three-year period beginning in 2017. Employers whose total payroll is between \$1 million and \$5 million will also see a gradual reduction in their contribution rate.
- The budget has announced measures regarding the contribution made by tax-advantaged funds, specifically the Fonds de solidarité FTQ, Fondation and Capital régional et coopératif Desjardins.
- The following amendments will be made to the **tax credit for investments**:
 - The increase in the rate applicable to qualified property acquired for use mainly in a remote zone, in the eastern part of the Bas-Saint-Laurent administrative region or in an intermediate zone will be reduced by 8 percentage points for eligible expenses incurred after December 31, 2016, reducing the rate to 24% in remote zones, 16% in

the eastern part of the Bas-Saint-Laurent administrative region, and 8% in intermediate zones. Property acquired for use primarily outside these regions **will no longer be eligible**.

- The definition of qualified property will be modified so that property may qualify as such if it is acquired before January 1, 2023.
- Provided certain conditions are met, the rates of the **refundable tax credit for on-the-job training periods** will be increased as follows: the base rates will increase from 24% and 12% to 40% and 20%, respectively, while the increased rates will rise from 32% and 16% to 50% and 25%, respectively. These amendments will apply in respect of a qualified expenditure incurred after March 26, 2015 relating to an eligible training period beginning after that day.
- The government will allow certificates to again be issued for the **refundable tax credit for the integration of IT in manufacturing SMBs**. In addition, the duration of the tax credit will be extended for two years (until December 31, 2019), the rate will be reduced from 25% to 20% and the credit scope will be extended to corporations in the primary sector. Manufacturing SMBs that had submitted an application for a certificate in respect of an IT integration contract to Investissement Québec before June 4, 2014 and that received one can continue to claim the tax credit in respect of the contract after that date.
- The following changes will be made to the **refundable tax credit for Gaspésie Peninsula and certain maritime regions of Québec**:
 - The Act respecting the Sectoral Parameters of Certain Fiscal Measures (the “sectoral act”) will be amended such that activities in the recreation and tourism sector carried on by a corporation in the territory of the agglomeration of Îles-de-la-Madeleine may be recognized by Investissement Québec for the purposes of the credit as of the 2015 calendar year, and the rate applicable to recognized businesses carrying on activities in this sector will be 32% for the 2015 calendar year.
 - The eligibility period for the tax credit will be extended until December 31, 2020 and the sectoral act will be amended to enable corporations to submit an application for an initial certificate to Investissement Québec in respect of the recognized business that began to be carried on before January 1, 2021.
 - The tax legislation will be amended to introduce an annual limit of \$83,333 applicable to the salary or wages paid to an employee by a qualified corporation in respect of whom the corporation may claim the tax credit as of the 2016 calendar year. If the employee was not an eligible employee of the corporation throughout the year, this amount will be reduced on a pro-rata basis.
 - The tax legislation will be amended to reduce, from 16% to 15%, the rate applicable to recognized activities in the wind power, manufacturing, peat or slate processing and marine products processing sectors, and to reduce, from 32% to 30%, the rate applicable to recognized activities in the marine biotechnology, mariculture and recreation and tourism sectors. These reductions will apply to calendar years subsequent to the 2015 calendar year.
 - A corporation qualifying for the tax holiday for large investment projects will not be able to accumulate the tax assistance relative to the holiday from the employer HSF contribution and the refundable tax credit for Gaspésie Peninsula and certain maritime regions of Québec.
- The QST system will be amended to **allow large businesses to claim an input tax refund** in respect of property and services to which restrictions apply (road vehicles of less than 3,000 kg, gasoline, electricity, telecommunications services, food, beverages, etc.) at the rate of 25% in 2018, 50% in 2019, 75% in 2020 and, ultimately, 100% as of 2021.

- The Quebec tax regulations will be harmonized with the federal measures regarding the **temporary increase in the capital cost allowance rates for goods used in natural gas liquefaction**.
- The Quebec tax regulations will integrate the proposed amendments to federal measures with respect to the qualification of certain costs incurred for environmental studies and community consultations as **Canadian exploration expenses**.
- The following amendments will be made to the **refundable tax credits for the production of multimedia titles** (general component and specialized component):
 - The tax credits will be restored to the levels preceding the reduction announced in the budget of June 4, 2014. Thus, the rate applicable to multimedia titles intended for commercialization other than professional development titles will increase from 24% to 30%, and the French premium for such titles will increase from 6% to 7.5%, and the rate applicable to other multimedia titles will be increased from 21% to 26.25%.
 - The tax legislation will be amended to provide that the qualified labour expenditure in respect of an eligible employee may not exceed \$100,000 annually, and in this respect specific rules will be introduced regarding eligible employees or subcontractors with which the corporation is not dealing at arm's length.
 - These amendments will apply to a qualified labour expenditure incurred after March 26, 2015 or to a qualified labour expenditure incurred as part of a contract entered into after that date. For a corporation's taxation year that includes March 26, 2015, the \$100,000 limit will be calculated, according to the usual rules, in proportion to the number of days in the taxation year that follow that day.
- The following amendments will be made to the **refundable tax credit for the development of e-business** (TCEB):
 - The end date of the TCEB, currently set for December 31, 2025, will be eliminated.
 - The tax legislation will be amended to exclude from an employee's qualified wages any portion of the wages that is attributable to the employee's duties in the performance of work relating to an agreement entered into between the employer and a government entity. This amendment will apply to wages incurred after September 30, 2015 in carrying out work relating to an agreement entered into with a government entity that is renewed or extended after that date.
 - The sectoral act will be amended to specify that activities must be mainly related to e-business to qualify for the TCEB. To that end, the sectoral act will provide certain exclusions where the activities or results of those activities are incorporated into property that is intended for sale or the purpose of the results concerns the operation of such property. These amendments will apply to taxation years beginning after March 26, 2015.
 - The overall level of tax assistance for e-business development activities will be restored to 30% by adding a **new, 6% non-refundable tax credit** to the existing TCEB rate of 24%. The non-refundable portion of the new credit may be carried forward to future years. This new credit will apply to wages incurred after March 26, 2015.
- The **refundable tax credit for Quebec film and television production** will be restructured so that a higher base rate applies to a film, including a television program, that is not developed from a foreign concept or foreign format. This amendment will apply to a production for which an application for an advance ruling or an application for a certificate is submitted to SODEC after March 26, 2015. In addition, the tax legislation and the sectoral act will be amended to restore the former rules providing for a non-arm's length criterion, instead of an associated corporation criterion. These amendments will apply to taxation

years beginning after March 26, 2015.

- The **refundable tax credit for sound recording production** will be amended to restore the former rate of 35% applicable to a qualified labour expenditure. This amendment will apply to eligible property for which an application for an advance ruling, or an application for a certificate, is submitted to SODEC after March 26, 2015.
- The **refundable tax credit for the production of performances** will be restructured by restoring the parameters that applied prior to the announcements made in the June 4, 2014 budget, subject to a new, lower cap applicable to an eligible performance that is a comedy show. The increase in the tax credit rate will apply to an eligibility period of an eligible performance beginning after March 26, 2015 for which an application for an advance ruling, or an application for a certificate, is submitted to SODEC after that date. The increase in the cap on the tax credit will apply to an eligible performance, other than a comedy show, one of whose eligibility periods is not completed on March 26, 2015. The decrease in the cap on the tax credit will apply to an eligible performance that is a comedy show for which an application for an advance ruling in relation to the initial eligibility period, or an application for a certificate, is submitted to SODEC after March 26, 2015, where SODEC considers that the work on the production of the performance is not sufficiently advanced on that date and after June 30, 2015 in other cases.
- The **refundable tax credit for film dubbing** will be amended to restore the former rate of 35% applicable to a qualified expenditure for film dubbing. This amendment will apply to an eligible production whose dubbing is completed after March 26, 2015.
- The former parameters for the **refundable tax credit for book publishing** will be restored (rates of 35% and 27% respectively, and maximum tax credit of \$437,500). These amendments will apply to works for which an application for an advance ruling, or an application for a certificate, is submitted to SODEC after March 26, 2015.
- The former parameters of the **refundable tax credit for the production of multimedia environments or events staged outside Quebec** will be restored (rate of 35% and maximum tax credit of \$350,000). Moreover, the time limit for the tax credit will be eliminated. These amendments will apply to a production for which an application for an advance ruling, or an application for a certificate, is submitted to SODEC after March 26, 2015.
- The **refundable tax credit for international financial centres** will be replaced almost entirely by a non-refundable tax credit. These amendments will apply to taxation years beginning after March 26, 2015.

Other measures

- The budget proposes adding a **general integrity rule** under which a partnership or trust will be deemed to be a corporation for the purpose of calculating **refundable tax credits** and the new non-refundable tax credits for the TCEB and for international financial centres introduced as part of the budget. The announced measure will apply to taxation years ending after March 26, 2015.
- A partnership will qualify for a refundable tax credit only if it would qualify for this credit if it were a corporation. In addition, the level of tax assistance under a refundable tax credit that allows for an activity to be carried on through the intermediary of a partnership will be calculated by considering the partnership's attributes to be those of a qualified corporation. These measures will apply to taxation years beginning after March 26, 2015.
- The budget proposes establishing parameters for determining the **value of a taxable benefit** in calculating an employee's salary or wage for the purpose of applying for a refundable tax credit. Thus, the value of a taxable benefit will be considered only where the

employer paid the value of this benefit by means of a monetary amount starting in a taxation year that begins after March 26, 2015.

- For credits requiring a sectoral document to be issued, the budget proposes amending the sectoral act such that a person seeking to claim a refundable tax credit for a taxation year and who is required to obtain a document necessary for the purposes of the refundable tax credit must apply for the certificate or other document **no later than the end of the nine-month period** beginning on the day following the filing due date for the taxation year. This measure will apply as of a taxation year beginning after March 26, 2015.
- The budget proposes amending the sectoral act to make a partnership, and not its partners, responsible for applying for a certificate or other document.
- For the taxation years beginning after March 26, 2015, a taxpayer seeking to claim a **refundable tax credit** that first requires a document be issued by a sectoral body may not claim this tax credit for a taxation year, after the expiry of the later of the following time limits:
 - the time limit ending 12 months after the filing due date for the taxation year;
 - the time limit ending three months after the date of issue of the document necessary for the purposes of the tax credit for the taxation year.
- Other amendments will be made to the sectoral act with respect to, among other things, the discretion of the sectoral body and the new financial services corporations.
- For transactions carried out as of March 26, 2015, the budget proposes to broaden the scope of the obligation to disclose **“aggressive tax planning schemes”**.
 - Any transaction involving **conditional remuneration** that is aimed at obtaining a refundable tax credit and that will result in a tax benefit of \$25,000 or more for a taxpayer must, effective immediately, be disclosed to Revenu Québec according to the compulsory disclosure mechanism.
 - The obligation to disclose will also apply to a taxpayer who is a member of a partnership that carries out a transaction resulting in a tax benefit of \$25,000 or more for the taxpayer, or an impact on the income of the taxpayer or the partnership, as the case may be, of \$100,000 or more and that involves **contractual coverage**.
- For dispositions carried out after December 31, 2016, the budget proposes to allow certain individuals to claim the **capital gains exemption** of \$813,000 (\$1 million in the agriculture and fishing sectors) during a transfer of qualified shares of corporations in the agriculture, fishing, primary and manufacturing sectors to a corporation with which the individual is not dealing at arm’s length and where an eligibility certificate has been previously obtained. The qualification criteria will be announced next year.
- The budget proposes increasing the eligible amount of a **donation** made after March 26, 2015 by a recognized agricultural producer to certain registered charities by 50% for the purposes of calculating the deduction or non-refundable tax credit for gifts, as applicable, for donations of eligible agricultural products.
- The budget proposes increasing, as of 2015, the threshold for the mandatory participation in workforce skills development to \$2 million as of 2015.
- The budget contains an additional reduction to the tax on gasoline for border areas effective April 1, 2015.

Conclusion

Minister Leitaño’s budget restores fiscal balance and launches an ambitious economic plan that, according to the Minister, will enable Quebec to proactively build its future rather than take a passive stance. However, the budget is based on several assumptions, some of which are associated with risks that could adversely affect the anticipated developments in the Quebec

economy. Notable among those risks are different-than-projected developments in the economies of Quebec's main trading partners, oil price trajectories that differ from forecasts, a greater-than-expected deceleration in the Canadian economy, a return to instability in the euro area and certain geopolitical conflicts.

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

Please note that Deloitte is prepared to provide accessible formats and communication supports upon request.

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