



## Canadian tax alert

### 2017-2018 Quebec budget highlights

March 28, 2017

Finance Minister Carlos Leitão tabled the 2017-2018 Quebec budget, entitled "A budget of hope regained and prudence", on March 28, 2017.

The minister confirmed that for fiscal 2016-2017, Quebec has returned to fiscal balance and will show a \$250 million budgetary surplus after depositing \$2,042 million in the Generations Fund.

For fiscal 2017-2018, the minister tables a third straight balanced budget with no budgetary surplus after depositing an amount of \$2,488 million in the Generations Fund.

This budget announces an investment of \$3.4 billion over the next five years to improve educational success from childhood through to higher education.

In the health and social services sector, the budget confirms an increase in program spending growth from 3.0% to 4.2% in fiscal 2017-2018.

The government is increasing the investments planned in the Quebec Infrastructure Plan by \$2.4 billion, thereby raising the total investment to \$40 billion over the next four years.

The government is also confirming a large investment in three major public transit projects: the Réseau électrique métropolitain, the extension of the Montréal métro blue line, and the implementation of bus rapid transit (BRT) between Quebec City and Lévis. For each of these projects, the government is expecting an “adequate contribution” from the federal government as part of the infrastructure program announced on March 22, 2017.

## Fiscal/economic outlook

Some of the major assumptions underlying the budget include real GDP growth of 1.7% in 2017 and 1.6% in 2018, compared to 1.7% growth in 2016.

Consolidated revenue growth is expected to be 3.7% in 2017-2018 and 2.7% in 2018-2019. For the same years, consolidated expenditure growth is projected to be 3.6% and 2.5%, respectively.

Consolidated revenues will be used to finance expenditures as well as the Generations Fund deposits needed to achieve the debt reduction objectives by 2025-2026.

The gross debt burden has been declining since 2016. As at March 31, 2017, the gross debt-to-GDP ratio stood at 52.7%, a 0.7-percentage-point decrease from March 31, 2016. The objective is to reduce debt to 45% of GDP by 2025-2026.

The unemployment rate fell to a historic low of 7.1% in 2016 and is currently sitting at 6.4%.

Summarized below are the key tax measures from today’s budget.

## Tax measures for businesses

For the purposes of the **small business deduction (SBD)**, the qualification criterion concerning the minimum **number of hours worked**, introduced in the previous budget, will be replaced with a qualification criterion concerning a minimum number of **hours paid**, for taxation years beginning after December 31, 2016. In addition, the tax legislation will be amended such that a person who holds, either directly or indirectly, most of the full-voting-rights shares of a corporation’s capital stock is deemed to have received from the corporation for a taxation year of the corporation, subject to certain conditions, remuneration corresponding to a conversion factor of 1.1 for each hour the person worked as an active participant in the corporation’s activities for the year.

The tax legislation and regulations will be amended to introduce **additional capital cost allowance** where a business acquires manufacturing or processing equipment and general-purpose electronic data processing equipment (and systems software for that equipment) before April 1, 2019. Generally speaking, a taxpayer will be entitled to the allowance for two taxation years; that is, the taxation year in which the property is first put in use and the subsequent taxation year. The base amount for the allowance for a taxation year will be 35% of the amount deducted as capital cost allowance, in respect of the class to which the taxpayer's qualified property belongs. These changes will apply to property acquired after March 28, 2017 and before April 1, 2019.

For the purposes of the **refundable tax credit for corporations specialized in the production of multimedia titles**, the legislation will be amended to provide that, solely for the purposes of the 75% criterion and the parameters used to determine the tax credit rates, a part of another multimedia title will be deemed an eligible multimedia title, even though it is a component of another title produced by a corporation with an establishment in Quebec if it is shown, to the satisfaction of Investissement Québec, that the other title is an eligible multimedia title. These changes will apply to a specialized corporation certificate application submitted to Investissement Québec after March 28, 2017.

The rate of the **additional deduction for transportation costs of certain remote manufacturing small and medium enterprises (SMEs)** that carry out their activities in the "special remote area" will be raised from 7% to 10% for taxation years beginning after March 28, 2017.

An **additional deduction for transportation costs of all SMEs located in the special remote area** will be introduced. This additional deduction may reach 10% of an eligible corporation's gross income for a taxation year. This measure will apply to an eligible corporation's taxation year that begins after March 28, 2017.

The **tax holiday for large investment projects** will be amended as follows:

- The November 20, 2017 deadline for submitting an application for an initial qualification certificate will be extended to December 31, 2020.
- A new election is being introduced such that two large investment projects carried out by a corporation can be considered together. An application for modification must be filed with the Finance Minister no later than the date on which the application for the first annual certificate related to Phase I of the project was issued and before January 1, 2021.

There will be three increases in **the refundable tax credit for film or television productions**, as follows:

- The 8% increase in the tax credit applicable to qualified labour expenditures incurred by a qualified corporation and related to special effects creation and computer animation, other than such expenditures incurred for the production of certain French-language feature films, certain documentaries and giant-screen films, will be raised to 10%;
- The increase in the qualified labour expenditure attributable to services provided in Quebec, outside the Montreal region, which is currently 8% for the making of certain French-language feature films, certain documentaries and giant-screen films, and 16% for the other categories of eligible films, will be raised to 10% and 20%, respectively; and
- The tax legislation will be amended to provide that the increase for productions that do not receive any financial assistance from a public body will be raised from 8% to 16% for all eligible productions. Moreover, the condition, i.e., that the increase be available only if an eligible production receives no financial assistance from a public body, will now be adjusted.

These changes will apply to a production for which an application for an advance ruling, or an application for a certificate if no advance ruling application was previously filed for the production, is submitted to SODEC (*Société de développement des entreprises culturelles*) after March 28, 2017.

The category of eligible small-budget productions for purposes of the **base refundable tax credit for film production services** will be eliminated and the entry threshold determined based on production costs in the category of eligible productions will be lowered. These amendments to the tax and related legislation will apply to eligible productions for which an application for an approval certificate has been filed with SODEC after March 28, 2017.

With respect to the **refundable tax credit for the production of multimedia events or environments staged outside Quebec**, the legislation will be amended such that, in the case of multimedia environments, the condition concerning the absence of an establishment in Quebec for the co-contractor is eliminated. However, to be recognized as an eligible production of a corporation, a multimedia environment must be created under a contract that the corporation entered into with a person with which it is dealing at arm's length. This change will apply to an eligible production whose first public performance takes place after March 28, 2017 and for which an application for an advance ruling or a certificate application is submitted to SODEC after that date.

For purposes of the **refundable tax credits aimed at encouraging the creation of new financial services corporations**, the legislation will be amended such that applications for a corporation qualification certificate may be filed with the Minister of Finance no later than December 31, 2022 rather than December 31, 2017. In addition, certain fees will be added to the eligible expenses for purposes of the tax credits. These expenses must, however, be directly attributable to the eligible activities of the corporation in order to qualify. These changes will apply to expenses incurred by a

qualified corporation for a taxation year included, in whole or in part, in a period of validity of its corporation qualification certificate, and after March 28, 2017.

The **refundable tax credit for the production of ethanol in Quebec** will be modified such that the concept of “eligibility period” for the purposes of this credit no longer refers to a maximum period of 10 years without, however, going beyond March 31, 2018. This change will apply to a qualified corporation whose taxation year ends after March 28, 2017. In addition, the legislation will be amended such that the **production of biodiesel fuel** by a qualified corporation will now be eligible for this tax credit.

The statute of incorporation of **Fondation (Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l’emploi)** will be amended to make changes to its investment requirement. This amendment will apply to any of Fondation’s fiscal years beginning after May 31, 2016.

The **Act constituting Capital régional et coopératif Desjardins** will be amended to change the concept of investment and the calculation of the investment requirement.

## Tax measures for individuals

As of 2016, and on a **retroactive basis**, the budget is proposing to **abolish the health contribution** for all adults whose income for that year does not exceed \$134,095. Adults whose income for 2016 was greater than \$134,095, other than exempt individuals, must pay a health contribution for that year equal to the lesser of \$1,000 or 4% of the amount by which their income for the year exceeded \$134,095. Revenu Québec will be responsible for either cancelling or recalculating the amount to be paid by individuals for the 2016 taxation year.

As of the 2017 taxation year, the legislation will be amended in order to **increase the basic tax credit** and to **simplify the calculation of personal tax credits** as follows:

- the **zero-tax threshold** will be raised from \$14,544 to \$14,890 for all individuals other than trusts;
- **personal tax credits** will be calculated according to the rate applicable to the first taxable income bracket of the personal income tax table, **i.e., 16% instead of 20%**, which, among other things, will harmonize with the calculation method used by the federal government. The amounts used for the purpose of calculating personal tax credits will, however, be raised so that such credits remain unchanged;
- however, eligible medical expenses, eligible expenses to obtain medical care not provided in the region where an individual lives, interest paid on a student loan, and the first \$200 in gifts will continue to be converted into a tax credit at the **rate of 20%**;

- changes will be made to the terms of calculation of tax credits for persons living alone, with respect to age and for retirement income, and to tax credits for minor children engaged in vocational training or post-secondary studies and tax credits for other dependants;
- as a corollary, changes will also be made to the various methods of calculating an adjustment of a basic tax credit following the receipt of covered benefits determined by the **Commission des normes, de l'équité, de la santé et de la sécurité du travail** (CNESST), the **Société de l'assurance automobile du Québec** (SAAQ) or a body other than the CNESST or the SAAQ.

For the 2017 taxation year, **income tax to be deducted at source** should be deducted without taking into account the changes proposed in this budget.

The **presumption of residence** for children of individuals deemed to be resident in Quebec will be amended for a taxation year subsequent to the 2016 taxation year.

For purposes of the **refundable tax credit for childcare expenses**, the definition of "eligible child" will be amended as of the 2017 taxation year.

The budget is proposing to extend the eligibility period for the **RénoVert tax credit** to March 31, 2018.

The budget is proposing a **new temporary refundable tax credit for upgrading residential waste water systems**. This credit will apply to individuals who have a qualified contractor carry out recognized work set out in a service agreement entered into after March 31, 2017 and before April 1, 2022.

To provide greater tax assistance for inhabitants of **Îles-de-la-Madeleine**, the legislation will be amended such that the Islands are considered **northern zones** as of the 2017 taxation year.

## Other measures

The **compensation tax for financial institutions**, which was to end on March 31, 2019, will be extended to March 31, 2024. The current compensation tax rates will be maintained for an additional five-year period and apply until March 31, 2022. The rates initially planned for the period starting on April 1, 2017 will apply to the period from April 1, 2022, to March 31, 2024.

The *Mining Tax Act* will be amended to introduce an **allowance for community consultations**. This allowance will be taken into account in calculating an operator's annual profit or annual loss. The **refundable duties credit for losses** of an operator will be amended to take into account the new allowance for community consultations. These measures will apply to an operator's fiscal year ending after March 28, 2017.

Changes will be made in the use of the **territorial designation of the Northern Plan** in various tax measures specific to the mining sector. These changes will apply to exploration expenses incurred after March 28, 2017.

### **The fight against tax evasion**

To optimize its revenues, the government will implement a technological solution to improve tax compliance by stakeholders in the **remunerated passenger transportation sector** starting at the end of 2019.

It will also delegate a part of the tourism ministry's (*Ministère du Tourisme*) inspection powers to Revenu Québec to ensure compliance with legislation and with the tax obligations of hosts who offer **tourist accommodations through sharing economy platforms**.

Lastly, the *Tax Administration Act* will be amended to:

- enable small businesses with 10 or fewer employees to contest, on the same basis as an individual, a decision rendered following an objection before the **Small Claims Division of the Court of Quebec**;
- raise eligibility thresholds in tax cases before the **Small Claims Division of the Court of Quebec**;
- implement measures concerning **summary appeals**.

## **Conclusion**

For a third straight year, Finance Minister Leitão has handed down a balanced budget, using part of the fiscal room to invest more in government priorities, including the educational success of children, improved health care, and major investments in public transit.

Nevertheless, the budget is based on several assumptions that are associated with risks that might affect the anticipated evolution of Quebec's economy. These include more unpredictable economic and political directions, growing uncertainty over trade policies, and a significant slowdown in global economic growth. Finally, Quebec and Canadian exports could be affected by future trade agreement renegotiations with the United States (NAFTA) and by the softwood lumber dispute with the United States.

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

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