Deloitte.

Canadian tax alert

2018-2019 Quebec budget highlights

March 27, 2018

Finance Minister Carlos Leitão today tabled the 2018-2019 Quebec budget entitled *"A strong economy to improve the quality of life and mobility of all Quebecers."*

For 2018-2019, the minister has delivered a fourth straight balanced budget with a zero budgetary balance after depositing $2,491 million in dedicated revenues to the Generations Fund and using $1,587 million from the stabilization reserve.

This budget is announcing a series of major investments over the next five years: $1.2 billion to foster success in education and higher education, $3.6 billion to improve access to quality health services, and $2.3 billion to support Quebec small- and medium-sized businesses.

The government is also announcing a massive $10 billion annual investment for ten years to meet infrastructure needs, particularly in the education, health and social services sectors, the road network, and public transit.

Today's budget is also announcing the government's intention to repay a portion of the province's debt, at $2 billion per year for five years (from 2018-2019 to 2022-2023) using amounts accumulated in the Generations Fund. According to the budget, the Generations Fund will continue to grow despite the expected debt repayments over the coming years.

Budgetary and economic outlooks

Some of the major assumptions underlying the budget include real GDP growth of 2.1% in 2018 and of 1.7% in 2019 compared to 3.0% growth in 2017.

Consolidated revenue growth is expected to be 2.2% in 2018-2019 and 3.4% in 2019-2020. For the same years, consolidated expenditure growth is projected to be 4.5% and 2.6%, respectively.

In recent years, budgetary surpluses have been allocated to the stabilization reserve, which stood at $5.4 billion at the beginning of 2018-2019. The 2018-2019 budget is announcing that the reserve will be reduced to $2.4 billion at year-end 2020-2021, a sufficient level given the government's sound financial framework.

The gross debt burden has been declining since 2014. As at March 31, 2018, the gross-debt-to-GDP ratio was at 49.6%, down 1.9 percentage points from March 31, 2017. This ratio is expected to stand at 45.0% of the GDP as at March 31, 2023 and continue decreasing to 42.6% as at March 31, 2026.

For 2017, Quebec's unemployment rate fell to 6.1%, below Canada's unemployment rate of 6.3%.

Below are some highlights of the main tax measures presented in today's budget.

Measures for business

The budget is proposing a gradual increase to the small business deduction (SBD) rate such that the **income tax rate applicable to the portion of a company's income qualifying for the SBD is reduced to 4% by 2021**. Consequently, the rate of the additional deduction for primary and manufacturing sectors SMBs will be gradually reduced and the additional deduction will be eliminated in 2021. The other SBD-related terms and conditions will not change. These changes will apply to corporate tax years ending after March 27, 2018, and instalment payments may be adjusted as of the first instalment after that date.

As such, the corporate tax rates for 2018 are as follows:

Corporate Tax Rates for Quebec Companies –2018 Calendar Year		
	Quebec	**Combined rates (federal and Quebec)**
General tax rate, manufacturing and processing, investment	11.7%	26.7 %
Tax rate for small businesses	8.0% / 7.0%	18.0% / 17.0%
Tax rate for small businesses (manufacturing, processing and primary sector)	4.0%	14.0%
Tax rate for small businesses (investment)	11.7%	50.37%

Note: It is assumed that the previously announced reduction to the federal small business tax rate will become law and that the small business tax rate will be reduced from 10.50% to 10.00% on January 1, 2018; this reduction was confirmed in the federal budget tabled on February 27, 2018. In Quebec, the taxable income of small businesses that do not meet certain eligibility requirements will be taxed at the general rate of 11.7%, for a combined rate of 21.7%.

The budget is proposing amendments to how the **employer contribution to the Health Services Fund ("HSF")** is calculated.

- First, the **$5 million threshold** applicable to a specified employer's total payroll for the purpose of determining whether the employer is eligible for the rate reduction available to SMBs **will be gradually raised** over four years as of 2019, reaching $7 million in 2022. This threshold will be automatically adjusted each year as of 2023.

- Second, a new plan to **reduce the HSF contribution rates** for SMBs will be implemented as of 2018, which will increase the previously announced rate reductions. More specifically:
  - The applicable rate for calculating the HSF contribution of eligible specified employers having a total payroll of $1 million or less will, over a five-year period, be gradually reduced from 1.5% to 1.25% for SMBs in the primary and manufacturing sectors and from 2.3% to 1.65% for SMBs in the services and construction sectors.
  - Eligible specified employers whose total payroll for a year exceeds $1 million will also see a gradual reduction in their contribution rate.
  - Clarification will also be made regarding the reduction to the HSF contribution for innovative SMBs.

The budget is proposing to abolish the **35% additional capital cost allowance** (introduced in March 2017) on manufacturing and processing equipment and on general-purpose electronic data processing equipment acquired before April 1, 2019 and replace it with a **60% additional capital cost allowance** that will be available for a two-year period. The equipment must be new at the time of acquisition and be acquired after March 27, 2018 but before April 1, 2020.

The budget is proposing to **enhance the refundable tax credit for on-the-job training** by raising the tax credit rate for Aboriginal interns and by raising the weekly qualified expenditure limit and the maximum hourly rate of their credit for all existing categories of eligible interns. In addition, the rate of the refundable tax credit for on-the-job training periods will be increased for qualified training periods served in resource regions. These amendments will apply to qualified expenditures incurred after March 27, 2018 in respect of eligible training periods beginning after that day.

The Act will be amended to introduce a **refundable tax credit to support training for workers employed by SMBs**. In short, qualified corporations will be able to use this credit to receive tax assistance of up to $5,460 a year for each eligible employee who participates in eligible training. A qualified corporation or a corporation that is a member of a partnership, as applicable, must operate an SMB with a payroll under $7 million, and the qualified training expenses must be incurred after March 27, 2018 and before January 1, 2023.

The budget is proposing to amend the Act to include, on certain conditions, an investment project to **develop a digital platform** in projects eligible for the **tax holiday for large investment projects**. This change will apply to investment projects beginning after March 27, 2018.

The budget is proposing to temporarily introduce a **refundable tax credit to support the digital transformation of print media companies**. In short, this credit will provide companies with tax assistance of up to $7 million annually in respect of expenditures incurred after March 27, 2018 and before January 1, 2023 to undertake digital transformation of their print media activities.

The budget is proposing to amend the Act to simplify the application of the **refundable tax credit for film dubbing** and to further support Quebec's film dubbing industry. More specifically, the cap on a corporation's qualified labour expenditure for a taxation year equal to 45% of the consideration received for execution of the dubbing contract will be eliminated. This change will apply to qualified film dubbing expenditures for taxation years beginning after March 27, 2018.

Regarding the **refundable tax credit for Quebec film or television production**, amendments will be made to the *Act respecting the sectoral parameters of certain fiscal measures* (hereinafter called "framework bill") such that, when a film's primary market is the online broadcasting market, the film must:

- in the case of an eligible online video service of a supplier that is a television broadcaster, there must be an undertaking by the television broadcaster to make the film accessible in Quebec on its eligible online video service; and

- in the case of an eligible online video service of another supplier, there must be an undertaking by a holder of a general distributor's licence (hereinafter, "general distributor") to provide the film in Quebec, as well as an undertaking by the supplier of the eligible online video service, in regard to the general distributor, to make the film accessible in Quebec on that eligible online video service.

In line with the proposed amendments, new requirements will also be added to the certificate application process. These amendments will apply to a film or television production for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was previously filed for the production, is filed with SODEC after March 27, 2018. Other technical amendments will be made to the measure to give effect to the minister's proposals.

The framework bill will also be amended such that, for purposes of the **refundable film production services tax credit**, a virtual reality documentary (as defined) may be less than 30 minutes in length or, for a series, less than 30 minutes per episode. Virtual reality can also be more widely applied to all sensory channels. This amendment will apply to qualified productions for which an application for an approval certificate is filed with SODEC after March 27, 2018.

The $350,000 limit on the **refundable tax credit for the production of multimedia environments or events presented outside Quebec** will be removed. This amendment applies to qualified productions for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was previously filed for the production, is submitted to SODEC after March 27, 2018.

The eligibility period for the three **refundable tax credits for the production of ethanol, cellulosic ethanol and biodiesel fuel in Quebec,** which were to end on March 31, 2018, will be extended five years until March 31, 2023. Moreover, these tax credits will be calculated at a fixed rate of $0.03, $0.16 and $0.14 per litre, respectively, starting April 1, 2018. The monthly limits for the production of ethanol and cellulosic ethanol will be raised. Other than certain additional technical changes to be made to these measures, companies applying for an initial eligibility certificate for the tax holiday for large investment projects after March 27, 2018 will not be able to claim the refundable tax credits for the production of ethanol or cellulosic ethanol in Quebec or the tax credit for the production of biodiesel in Quebec in respect of activities resulting from implementation of the large investment project.

The budget is introducing a **refundable tax credit for pyrolysis oil production in Quebec.** This refundable tax credit, at a rate of 8.0 cents per litre, will be granted to qualified companies in respect of the eligible pyrolysis oil it produces in Quebec from residual forest biomass, which is sold in and intended for Quebec, up to 100 million litres per year. A qualified corporation will be able to claim this tax credit for a five-year period beginning on April 1, 2018. The budget sets out the application terms for this measure and states that companies that apply for an initial qualification certificate in respect of the tax holiday for large investment projects after March 27, 2018 cannot benefit from this measure in respect of activities resulting from implementation of their large investment projects.

Measures relating to the Quebec sales tax

The minister has announced that the QST system will be changed to **require suppliers with no significant or physical presence in Quebec** (hereinafter referred to as "non-resident suppliers") **to register for this tax**. Non-resident suppliers will have to collect and remit QST on incorporeal movable property and taxable services provided in Quebec. Moreover, non-resident suppliers located in Canada will have to collect and remit QST in respect of taxable incorporeal movable property provided in Quebec. This registration requirement will apply to non-resident suppliers if the value of considerations for all taxable supplies made to consumers in Quebec exceeds a $30,000 threshold.

This registration requirement will also apply to **digital property and services distribution platforms** (hereinafter, "digital platforms") with respect to taxable supplies of incorporeal movable property or services received by Quebec consumers, where these digital platforms control the key elements of transactions with Quebec consumers, such as billing, transaction terms and conditions, and delivery terms. In general, a digital platform will mean a platform that provides a service to non-resident suppliers by means of e-communication (e.g., an application store or a website), enabling non-residents to make taxable supplies of incorporeal movable property or services to Quebec consumers. This measure will apply to digital platforms that control the key elements of transactions with Quebec consumers where the value of the considerations for all taxable supplies that a digital platform enables non-resident suppliers to make in Quebec to consumers that exceeds a threshold of $30,000.

In addition to **correlative technical amendments**, amendments will be made to the presumption whereby a supply of movable property or a service provided in Quebec by a non-resident person is deemed to be provided outside Quebec, such that this presumption will not apply to the supply of corporeal movable property, incorporeal movable property or a service provided in Quebec to a Quebec consumer designated by a non-resident supplier located in Canada and registered under the mandatory registration system, or to the supply of incorporeal movable property or a service provided in Quebec to a Quebec consumer designated by a non-resident supplier through a digital platform registered under the mandatory registration system or general registration system.

The measures stemming from the implementation of the new specified registration system will apply as of:

— January 1, 2019 for non-resident suppliers outside Canada and for the digital platforms enabling such suppliers to make taxable supplies of incorporeal movable property or services in Quebec to specified Quebec consumers;

— September 1, 2019 for non-resident suppliers in Canada and for the digital platforms enabling such suppliers to make taxable supplies of incorporeal movable property or services in Quebec to specified Quebec consumers.

Measures concerning individuals

Harmonization with the federal government measures respecting private corporations

Quebec's tax legislation will be amended to incorporate (with adaptations based on its general principles) the proposed legislation announced by the Department of Finance Canada on December 13, 2017 to broaden the application of the **tax on split income** to individuals aged 18 years or over and to other types of income, while excluding the following persons from such rules: 1) individuals 18 years of age or older who were actively engaged on a regular, continuous and substantial basis in the activities of the business, 2) individuals who have reached 25 years of age in respect of income received from excluded shares, and 3) under certain conditions, spouses. Amendments are also proposed so that the tax on split income does not limit eligibility for the cumulative capital gains exemption.

Other measures affecting individuals

The budget is introducing a new **non-refundable tax credit**, of a maximum amount of $750, for the **purchase of a first home or more accessible housing** due to a severe disability. This credit will be available as of the 2018 taxation year.

The minister is extending the eligibility period for the **RénoVert tax credit**. The credit, of a maximum amount of $10,000, will apply to expenditures for eco-friendly home renovations provided under any agreement concluded after March 17, 2016 and before April 1, 2019.

The budget is announcing an **increase to the limit applicable to childcare services** for a child with a severe and prolonged impairment in mental or physical functions and a limit applicable to childcare services for a child who does not have such an impairment and who is under 7 years of age at the end of the year; these limits will be respectively raised to $13,000 and to $9,500 starting in 2018. In addition, starting in 2019, there will be an adjustment of all limits applicable to childcare expenses that qualify for the refundable tax credit for childcare expenses.

The minister is announcing that, given the lower general tax rate, the **eligible dividend tax credit** and **non-eligible dividend tax credit** rates will be gradually reduced. Specifically, the eligible dividend tax credit rate will be lowered to 11.86% of the grossed-up amount of a dividend received or deemed received after March 27, 2018 but before January 1, 2019. It will be reduced to 11.78% of the grossed-up amount of a dividend received or deemed received in 2019 and to 11.7% of the grossed-up amount of a dividend received or deemed received after December 31, 2019.

The minister is announcing that the tax legislation will be amended whereby an individual will be able to continue claiming the **non-refundable tax credit for a first major cultural donation** made before January 1, 2023.

The budget is **enhancing the refundable tax credit known as the "tax shield"** such that, as of the 2018 taxation year, the maximum increase in eligible work income over the previous year will be raised to $4,000 for each member of a household.

The budget is lowering the age of eligibility for the **tax credit for experienced workers** to age 61 as of the 2018 taxation year.

The budget is announcing the introduction of a new component for the **tax credit for informal caregivers**. A maximum tax credit of $533 will be available as of 2018 for informal caregivers who do not house or live with a relative but regularly and consistently help that relative.

The minister is announcing the enhancement to the **refundable tax credit for volunteer respite services for informal caregivers** as of 2018. Specifically, the annual envelope at a person's disposal, for recognition purposes, in relation to each care recipient of whom the person is an informal caregiver will be raised from $1,000 to $1,500.

As of the 2018 taxation year, the **refundable tax credit for the acquisition or rental of property intended to help seniors live independently longer** will be enhanced, through a reduction, to $250, of the threshold at which the tax credit may be claimed in respect of expenses paid for qualified property, and through a broadening of the existing list of qualified property.

The minister is announcing that the tax legislation will be amended to provide that, for an individual who ordinarily lives, throughout the year, in a self-contained domestic establishment maintained by the individual and in which no person, other than the individual, a person under 18 years of age or an eligible student of whom the individual is either the father, mother, grandfather or grandmother, or the great-grandfather or great-grandmother, lived during the year may claim, for that year, **the amount for persons living alone** in the calculation of the tax credit.

Other measures

The budget is proposing to amend the *Act constituting* ***Capital régional et coopératif Desjardins ("CRCD")*** and the tax legislation in order to:

- create a new class of shares that will temporarily grant a non-refundable tax credit but will be subject to several restrictions;
- allow the fund to proceed, on an exceptional basis, with three more capitalization periods exceeding its capitalization limit, but while reducing the rate of the non-refundable tax credit for the purchase of shares of the capital stock of CRCD; and
- recognize certain investments made by CRCD and allow CRCD to continue to support, through investments, territories facing economic difficulties.

The budget is proposing to keep the 20% tax credit rate for any eligible **Fondaction** shares acquired during its next three fiscal years. However, a limit will be imposed on the capital that Fondaction can raise in each of those fiscal years.

The Act will be amended to adjust the **compensation tax** rates applicable to wages paid and to limit the wages paid on which a financial institution is required to pay compensation tax. These amendments will apply as of April 1, 2018. For greater clarity, no change will be made to the calculation of the compensation tax on insurance premiums or to the calculation of amounts established in respect of an insurance fund.

The ***Mining Tax Act*** will be amended to include an **environmental studies allowance.** An operator may deduct, in the calculation of its annual profit for a fiscal year, an amount for the environmental studies allowance that may not exceed the balance of its cumulative environmental studies expenses account at the end of the fiscal year. Changes will also be made to the refundable duties credit for losses of an operator to take into account the introduction of the environmental studies allowance. These changes will apply to an operator's fiscal year ending after March 27, 2018 in respect of environmental studies expenses incurred after that day.

The Act will be amended to temporarily enhance the **refundable tax credit** for holders of a **taxi driver's permit** for the 2017 and 2018 taxation years. This increase will be a maximum amount of $500.

Harmonization with federal legislation and regulations

The federal legislative proposals of December 13, 2017, which introduced a **requirement to report a trust's tax account number** and bring in requirements for tax slips applicable to partnerships and trusts, will also be retained, although they do not call for legislative or regulatory amendments in all cases. The changes to the Quebec tax system will be adopted only following assent to any federal statute or adoption of any federal regulation implementing the legislative and regulatory proposals retained, taking into account technical amendments that may be made prior to assent or adoption, as the case may be. For greater clarity, these changes will apply on the same dates as those retained for the purposes of the legislative proposals with which they are harmonized.

As for the measures announced in the **federal budget for 2018–2019**, Quebec’s legislation and regulations will be amended to include measures on **international taxation**. The aim is to add detailed transparency rules to the provisions intended to counteract cross-border surplus stripping by partnerships and trusts, modifying certain rules governing foreign affiliates, and extending the reassessment period where the reassessment relates to the adjustment of a loss carryback and is made as a result of a transaction involving a taxpayer and a related non-resident. Amendments announced to prevent taxpayers from sustaining **artificial losses** using equity-based financial arrangements and in relation to the stop-loss rule on share repurchase transactions will also be incorporated into Quebec's tax legislation and regulations. The changes to the Quebec tax system will be adopted only following assent to any federal statute or adoption of any federal regulation implementing the legislative and regulatory proposals retained, taking into account technical amendments that may be made prior to assent or adoption, as the case may be. For greater clarity, these changes will apply on the same dates as those retained for the purposes of the federal proposals with which they are harmonized.

Conclusion

For a fourth straight year, Minister Leitão has handed down a balanced budget, using part of the fiscal room to invest more in the government’s priorities, particularly the educational success of young people, improved health care services, Quebec SMBs, debt repayment, and major investments in Quebec’s infrastructure.

However, the budget is based on several assumptions that are associated with risks that might affect the anticipated evolution of Quebec’s economy. Such assumptions include a generalized slowdown in the global economy (including the U.S. economic cycle), faster-than-expected tightening of monetary policies around the world, greater restrictions imposed on global trade (specifically, the NAFTA renegotiations), unexpected changes in crude oil prices, and a stronger-than-expected slowdown in the Canadian residential sector.

For further details, we refer you to the Ministry of Finance website.

Your dedicated team:

National

Fatima Laher
Tax Clients and Industry Leader
Tel: 416-601-6570

Albert Baker
National Tax Policy Leader
Tel: 416-643-8753

Quebec

Philippe Bélair
Regional Tax Leader
Tel: 514-393-7045

Deloitte LLP
Bay Adelaide Centre, East Tower
8 Adelaide Street West, Suite 200
Toronto ON M5H 0A9
Canada