

# Québec Budget Highlights



March 28, 2017

## HIGHLIGHTS

- Province releases third successive balanced budget
- Health contribution for 2016 eliminated for individuals earning less \$134,096
- Introduction of additional 35% capital cost allowance for M&P and computer equipment
- Personal credits increased and to be indexed

## THE QUÉBEC ECONOMIC PLAN

On March 28, 2017, Carlos Leitão, Québec's finance minister, tabled his fourth budget and the government's third straight balanced budget. Due primarily to a retroactive reduction of the health contribution for most Quebecers and an increase to the basic credit, the tax burden for individuals will be reduced by \$1.2 billion in the coming year. The province's improved financial stability has also allowed for greater spending on public services such as education, health care and public transit. Finally, there will still be funds available in the 2017-18 fiscal year to add \$2.5 billion to the Generations Fund to reduce the province's debt.

Here are the highlights from the budget:

### BUSINESS MEASURES

**Adjustment to the refocusing of the Small Business Deduction** - The criterion based on the minimum number of hours worked will be replaced with a criteria based on the number of hours paid. The other criteria remain the same.

**Remote SMEs** - In order to increase aid to manufacturing SMEs in the "special remote area", the rate of the additional deduction for transportation costs will be increased to 10% for businesses in this zone.

Furthermore an eligible business can claim a new deduction for transportation costs of up to 10% of its gross revenues, depending on its size and level of activities in the special remote area.

**Introduction of an additional capital cost allowance of 35%** - In order to support businesses and encourage them to increase their investments to ensure they are competitive in manufacturing innovative products and computerizing their business processes, an additional capital cost allowance is introduced for manufacturing or processing and computer equipment acquired before April 1, 2019.

**Changes related to cultural refundable tax credits** - The three refundable tax credits for film and television production will be improved. In addition, for productions with no public financial assistance, there will be substantial changes in relation to both the rates and application of the credit.

In addition, admissibility for the tax credit for film production services will be eased.

Certain tax measures will be modified, in case of a multimedia environment, to remove the condition that a co-contractor no have an establishment in Québec.

Other technical changes have been proposed.

**Refundable tax credits aimed at encouraging the creation of new financial service corporations** - The *Act respecting the sectorial parameters of certain fiscal measures* will be modified to extend the deadline to apply for a corporation qualification certificate to December 31, 2022. Furthermore, two new eligible expenses have been added:

- fees related to the creation of a prospectus required by a recognized regulatory or self-regulatory organization of a financial market;
- fees paid to a compliance consultant to ensure compliance with the requirements of a recognized regulatory or self-regulatory organization of a financial market.

**Major investments by Fondation in social economy enterprises and eligible investments by Capital régional et coopératif Desjardins in the Société en commandite Essor et Coopération** - To better reflect Fondation's mission, the maximum share of its net assets that it may allocate to major investments for the purposes of its investment requirement to a particular fiscal year must be calculated without taking into account major investments in social economy enterprises, within the meaning of the *Social Economy Act*.

Moreover, the *Act constituting Capital régional et coopératif Desjardins* will be amended so that the aggregate of all investments not including any security or hypothec that may be made by the fund in the Société en commandite Essor et Coopération and taken into account for the purposes of calculating the investment requirement, may total \$85 million.

## PERSONAL MEASURES

**Elimination as of 2016 of the health contribution** - The health contribution will be abolished retroactively to the year 2016 for all adults whose income does not exceed \$134,095. Those with income over \$134,095 will continue to pay the health contribution.

**General tax reduction and simplification of the calculation of personal tax credits** - The basic tax credit given to all individuals, other than trusts, will be increased, resulting in a potential tax reduction of slightly more than \$55 for all individuals.

Also, the tax laws will be modified such that the rate used to calculate several personal tax credits will be changed, without reducing the value of the tax credits.

The rate used to calculate the tax credits for medical expenses and for interest paid on a student loan remain unchanged, as well as there is no change in the rate applicable on the first \$200 of donations, used in calculating the donation credit.

Starting with the 2018 taxation year, all of the amounts used to calculate personal tax credits will be indexed for inflation.

**RénoVert tax credit** - The deadline to conclude a contract with a qualified contractor, for purposes of the RenoVert tax credit, has been extended for one year to March 31, 2018.

**Upgrading of residential waste water treatment systems** - A new tax credit of up to \$5,500 per eligible dwelling for the upgrading of residential waste water treatment systems will be introduced for a temporary period of 5 years.

## OTHER MEASURES

**Extension of the compensation tax for financial institutions at the current rate for an additional five-year period** - The compensation tax for financial institutions will be maintained until March 31, 2024. The existing rates will be maintained for an additional period of five years for April 1, 2022 until March 31, 2022. These rates will then be reduced until March 31, 2024.

**Measures relating to the mining sector** - An allowance for expenses related to community consultations will be introduced into the mining tax regime.

Furthermore, to ensure that the territorial designations assigned to the Northern Plan territory and those used in the *Taxation Act* and the *Mining Tax Act* are harmonized, the concept of Near North to which these two Acts refer will be modified to enlarge its territory southward, while the concept of Far North to which these two Acts also refer will remain unchanged.

**New Initiatives to Optimize Revenues** - To reduce the impact on its revenues of certain improper behaviors of individuals and businesses, the Québec government intends to:

- implement, starting at the end of 2019, a technological solution to increase tax compliance by participants in the remunerated passenger transportation sector;
- establish an awareness, inspection and investigation team in the tourist accommodation sector;
- reduce penal and criminal case processing times.

**Revenu Québec's Actions to Improve its Efficiency and its Relations with Taxpayers** - Revenu Québec's new vision is based on fairness and the organization's efficiency. It is characterized by a determination to offer quality services so as to foster voluntary tax compliance. Revenu Québec is developing new work methods. Furthermore, amendments to the *Financial Administration Act* will be proposed in order to foster diversion of disagreements away from the court system and access to justice, including the rules for summary appeals in tax matters before the Small Claims Division of the Court of Québec.

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