

Consumers Pay for Future Wealth

Tax Bulletin

Provincial Budget, March 30, 2010

The Québec Finance Minister, Raymond Bachand, delivered his first budget speech today, entitled “Choices for the Future”.

While the individual tax rates have not been increased, taxpayers will nevertheless have to dig into their pockets... In fact, the Minister announced a Québec sales tax increase in 2012, in addition to the increase already slated for January 1, 2011, as well as a gradual increase in the fuel tax. In light of the current HST harmonization in Ontario, these measures tend to support the significance of consumption taxes as a source of revenue. Moreover, the introduction of the health contribution effective July 1, 2010 is intended, according to the Minister, to ensure the sustainability of the Québec health-care system.

On the business side, the Minister is proposing an in-depth review of the mining tax system and replacement of the international financial centres regime with a refundable tax credit.

As for the environment, to sensitize users to the value of our resources and improve their management, the government is introducing a water royalty and announced a hike in Hydro-Québec rates. Additionally, changes to the measures relating to the capital cost allowance for freight vehicles will help to support the purchase of vehicles that satisfy new pollution emission standards.

This budget therefore aims to meet various challenges: in the short term, to solidify the recovery, by maintaining the Québec Infrastructure Plan and, in the medium term, to balance public finances by introducing a culture of public spending control. According to the Minister, attaining these first two objectives, will, in the longer term, provide the means for building Québec for the next 20 years.

Corporations

	Current measures	Proposed measures	
Mining duties regime			
Tax rate	<ul style="list-style-type: none"> ▪ 12% of a mining operator's annual profit 	<ul style="list-style-type: none"> ▪ Progressive rate increase to: <ul style="list-style-type: none"> – 14% starting March 31, 2010 – 15% in 2011 – 16% in 2012 	-
Calculation of annual profit	<ul style="list-style-type: none"> ▪ Based on gross value of annual output from one or more mines 	<ul style="list-style-type: none"> ▪ Addition of new parameters and application of a "mine-by-mine" approach 	-
Depreciation allowance	<ul style="list-style-type: none"> ▪ 100% depreciation rate for roads, buildings, equipment or a service property regularly used for mining operations 	<ul style="list-style-type: none"> ▪ Rate reduced to 30% for property acquired after March 30, 2010 ▪ Some transitional measures apply 	-
Processing allowance	<ul style="list-style-type: none"> ▪ Allowance determined on the basis of a rate of return of 8% and 15% depending on the circumstances ▪ Rates increased to 23% and 30% for certain property used in Québec ▪ Limit of 65% of annual profit 	<ul style="list-style-type: none"> ▪ Rates of return reduced to 7% and 13% respectively ▪ Elimination of the increased rates ▪ Limit reduced to 55% of annual profit ▪ Applies to fiscal years ending after March 30, 2010 	-
Additional allowance for a northern mine	<ul style="list-style-type: none"> ▪ Additional allowance available for a northern mine 	<ul style="list-style-type: none"> ▪ Allowance replaced with an additional allowance for a mine located in Northern Québec, which cover a larger territory ▪ Several conditions and special rules apply 	+
Allowance for exploration, mineral deposit evaluation and mine development expenses	<ul style="list-style-type: none"> ▪ Allocation eligible for all expenses and subject to certain limits and conditions 	<ul style="list-style-type: none"> ▪ Exploration, mineral deposit evaluation and mine development expenses divided among three distinct cumulative accounts giving rise to three separate allowances ▪ Certain specific conditions apply to each of these allowances 	-
Credit on duties refundable for losses	<ul style="list-style-type: none"> ▪ 12% credit applies to the lesser of the following amounts: <ul style="list-style-type: none"> – operator's adjusted annual loss – exploration, mineral deposit evaluation and mine development expenses incurred for the year 	<ul style="list-style-type: none"> ▪ Progressive increase in credit rate to 16% until 2012 ▪ Changes to limits and parameters applicable in the calculation of the adjusted annual loss 	+

Corporations

	Current measures	Proposed measures	
International financial centres (IFC)			
Replacement of the international financial centres regime with a refundable tax credit	<ul style="list-style-type: none"> ▪ A corporation (or a partnership) operating an IFC is entitled to a 75% partial exemption from: <ul style="list-style-type: none"> – Income tax – Tax on capital – The employer contribution to the Health Services Fund (HSF) 	<ul style="list-style-type: none"> ▪ A corporation operating an IFC will benefit from a refundable tax credit representing 30% of the salary of eligible employees <ul style="list-style-type: none"> – Maximum credit, on an annual basis, of \$20,000 per employee ▪ The IFC must have a minimum of six eligible employees ▪ A partnership will not be eligible for the credit ▪ Applies to salaries incurred and paid after March 30, 2010 <p>Transition period</p> <ul style="list-style-type: none"> ▪ A corporation operating an IFC on the budget date can elect to continue to benefit from the current IFC regime until December 31, 2012 (December 31, 2013 for partnerships) 	±
IFC employee other than a foreign specialist	<ul style="list-style-type: none"> ▪ Deduction in calculating taxable income of an IFC employee of: <ul style="list-style-type: none"> – 37.5% of the income from the IFC – Maximum deduction of \$50,000 on an annual basis 	<ul style="list-style-type: none"> ▪ None <p>Transition period</p> <ul style="list-style-type: none"> ▪ Deduction in calculating taxable income of an IFC employee on the date of the budget: <ul style="list-style-type: none"> – 2010: 37.5% of the income from the IFC, to a maximum of \$50,000 – 2011: 30.0% of the income from the IFC, to a maximum of \$40,000 – 2012: 20.0% of the income from the IFC, to a maximum of \$26,667 – 2013: 10.0% of the income from the IFC, to a maximum of \$13,333 	-
Deduction maintained for foreign specialist	<ul style="list-style-type: none"> ▪ Deduction in calculating taxable income of a foreign specialist of 100% for the first two years of employment, 75%, 50% and 37.5% respectively for the third, fourth and fifth year of employment 	<ul style="list-style-type: none"> ▪ No change 	+

Corporations

	Current measures	Proposed measures	
Tax credits for the production of multimedia titles			
Eligible multimedia title	<ul style="list-style-type: none"> ▪ Multimedia title that satisfies the following conditions: <ul style="list-style-type: none"> – It is produced by the corporation – It includes a significant volume of three of the following four types of information: text, sound, still images and animated images – It is published on an electronic medium and controlled by software that allows interactivity – It is not an excluded multimedia title 	<ul style="list-style-type: none"> ▪ Addition of a new eligible title: the eligible related title, which must be related to a principal multimedia title, i.e. tied to the intellectual property right or the licence that applies to the principal multimedia title and such right or licence is held by the corporation or by a corporation with which it is associated ▪ The related title does not have to be published on an electronic medium and controlled by software that allows interactivity ▪ The total amount of labour expenditure relating to eligible production work regarding a principal multimedia title is equal to or greater than \$1 million 	+
Eligible production work	<ul style="list-style-type: none"> ▪ Work done to carry out the stages of production of the title during a period beginning at the start of the design stage and ending 24 months after a final version is completed ▪ Activities relating to the distribution of a multimedia title, which include system architecture, are not eligible production work 	<ul style="list-style-type: none"> ▪ The period of 24 months after a final version is completed is extended to 36 months ▪ Activities relating to system architecture are eligible ▪ Applies to certification applications filed with Investissement Québec after March 30, 2010 	+
Improvements to the refundable tax credit for film dubbing			
	<ul style="list-style-type: none"> ▪ Tax credit of 30% of eligible labour expenditures ▪ Limit of 40.5% of the consideration paid for carrying out the film dubbing contract 	<ul style="list-style-type: none"> ▪ Rate increased to 35% ▪ Limit increased to 45% ▪ New eligible services: <ul style="list-style-type: none"> – Audition – Preparation of texts relating to computer-assisted detection – Production of video titles (other than a feature film intended for movie theatres) in a language other than the original ▪ Applies to a production for which a final certification application is filed after March 30, 2010 	+

Corporations

	Current measures	Proposed measures	
Refundable tax credit for Québec film and television production			
New excluded amounts of assistance	<ul style="list-style-type: none"> ▪ Subject to specific exclusions, government or non-government assistance reduces the amount of eligible expenses 	<ul style="list-style-type: none"> ▪ New exclusions: <ul style="list-style-type: none"> – <i>Fonds francophone d'aide au développement cinématographique</i> – Assistance provided under the <i>Mesure régionale d'aide au démarrage de productions cinématographiques et télévisuelles</i> 	+
Relief for non-residents occupying key positions in a foreign production filmed in Québec			
	<ul style="list-style-type: none"> ▪ Deduction granted to a foreign producer regarding payments received for services supplied in Québec in connection with such a production 	<ul style="list-style-type: none"> ▪ Relief extended to non-residents occupying a decision-making position, or a key position in the postproduction stage ▪ Applies as of the 2010 taxation year 	+
Refundable tax credit for R&D salaries			
Subcontractor work eligible for credit	<ul style="list-style-type: none"> ▪ R&D work performed in Québec by employees of an arm's length subcontractor 	<ul style="list-style-type: none"> ▪ Work done by a person who is not an employee of the subcontractor, but who is a shareholder or partner (in the case of a partnership) is also eligible 	+
Pharmaceutical industry	<ul style="list-style-type: none"> ▪ Research subjects participating in clinical trials ▪ Indemnity paid to a research subject 	<ul style="list-style-type: none"> ▪ An indemnity paid to a research subject for his participation in a clinical trial is not recognized for purposes of calculating the refundable tax credit for R&D salaries ▪ An indemnity paid by a subcontractor to a research subject who is not his employee in connection with an arm's length contract is excluded from eligible expenses for purposes of refundable tax credit for R&D salaries 	+
		<ul style="list-style-type: none"> ▪ The participation of a research subject in a clinical trial is now recognized for purpose of the credit ▪ An indemnity paid to a research subject who is not an employee of the subcontractor is an eligible amount for the tax credit ▪ Applies to expenses incurred for all non-statute-barred taxation years as at March 30, 2010 	
Tax credit for technology adaptation services			
Combination of credits	<ul style="list-style-type: none"> ▪ A single expense can be eligible for both the tax credit for technology adaptation services and a refundable tax credit for R&D 	<ul style="list-style-type: none"> ▪ An expense cannot be eligible for the refundable tax credit for technology adaptation services if it is otherwise eligible for the purposes of one of the refundable tax credits for R&D ▪ Applies to expenses incurred as of March 31, 2010 	-

Corporations

	Current measures	Proposed measures	
Refundable tax credits pertaining to businesses			
Extension of the scope of the easing regarding the twelve-month period for filing documents	<ul style="list-style-type: none"> ▪ Prescribed forms and documents in relation to an application for a refundable tax credit pertaining to businesses must be filed no later than twelve months following the filing deadline for the year in question ▪ It is possible to apply to have a refundable tax credit for R&D replaced by another tax credit for R&D after the deadline has expired provided the prescribed forms and documents were filed within the stipulated deadlines for the initial credit 	<ul style="list-style-type: none"> ▪ Extension of the easing stipulated for the purposes of the tax credits for R&D to all refundable tax credits pertaining to businesses ▪ Applies to tax credit applications files as of March 31, 2010 	+
Tax credit for the development of e-business			
Adjustment to the tax credit for activities transfer and business start-up situations	<ul style="list-style-type: none"> ▪ Qualification criteria of a corporation: <ul style="list-style-type: none"> – The minimum number of eligible employees must be complied with throughout the taxation year – The proportions of activities carried out by the corporation and services supplied: determined on the basis of gross revenue for an entire taxation year 	<ul style="list-style-type: none"> ▪ Easing of criteria to allow a corporation to qualify as a qualified corporation only for a portion of a taxation year: <ul style="list-style-type: none"> – On the transfer of activities (minimum of six employees) – For a business start-up 	+
Capital cost allowance			
Trucks and tractors designed for hauling freight	<ul style="list-style-type: none"> ▪ Diminishing balance capital cost allowance rate: 40% <ul style="list-style-type: none"> – Trucks and tractors designed for hauling freight and primarily used in a business that hauls freight – Weight exceeding 11,788 kg 	<ul style="list-style-type: none"> ▪ Diminishing balance capital cost allowance rate: increased to 60% <ul style="list-style-type: none"> – New vehicles acquired after March 30, 2010 – Applies also to additions and modifications made to vehicles to enable them to run on liquefied natural gas 	+
Additional deduction of 85% for trucks or tractors designed for hauling freight	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ Additional deduction of 85% of the amount deducted on account of capital cost allowance of 60% <ul style="list-style-type: none"> – Vehicles that run on liquefied natural gas when purchased or within twelve months of the purchase – Acquired after March 30, 2010 and before January 1, 2016 – Vehicles used mainly in hauling freight – No recapture following disposal of the property 	+

Corporations

	Current measures	Proposed measures	
Tax credit for the construction and major repair of public access roads and bridges in forest areas			
Extension of the tax credit	<ul style="list-style-type: none"> ▪ Temporary tax credit: <ul style="list-style-type: none"> – 90% of expenses for the construction or major repair of public access roads and bridges in forest area – Costs incurred after March 23, 2006 and before January 1, 2011 – Construction or major repair started before January 1, 2010 	<ul style="list-style-type: none"> ▪ Extension of the measure to costs incurred after December 31, 2010 and before April 1, 2013 ▪ Decrease in tax credit rate of 10% per calendar year: <ul style="list-style-type: none"> – 90% of expenses incurred in 2010 – 80% of expenses incurred in 2011 – 70% of expenses incurred in 2012 – 60% of expenses incurred in 2013 (from January 1, to March 31, 2013) ▪ Construction or major repair started before April 1, 2012 	+
Compensatory tax on financial institutions			
Rate increase	<ul style="list-style-type: none"> ▪ Current rates: <ul style="list-style-type: none"> – Paid-up capital: 0.25% – Salaries paid: <ul style="list-style-type: none"> • bank, loan company, trust company or securities trading company: 2% • savings and credit union: 2.5% • any other person: 1% – Insurance premiums and amounts established regarding an insurance fund: 0.35% 	<ul style="list-style-type: none"> ▪ Temporary rate increase: <ul style="list-style-type: none"> – Paid-up capital: stays at 0.25% – Salaries paid: <ul style="list-style-type: none"> • bank, loan company, trust company or securities trading company: 3.9% • savings and credit union: 3.8% • any other person: 1.5% – Insurance premiums and amounts established regarding an insurance fund: 0.55% – Applies for taxation years ending after March 30, 2010 and beginning before April 1, 2014 	-

Individuals

	Current measures	Proposed measures	
Health contribution			
	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ Introduction of a health contribution payable by all residents of Québec over the age of 18 years <ul style="list-style-type: none"> – Contribution exemption where family income is equal to or less than the exemption threshold – Amount of the contribution for one adult: \$25, \$100 and \$200, for the 2010, 2011 and 2012 years respectively. Amount is doubled for couples – In general, payable no later than April 30, when the income tax return is filed 	-
Solidarity tax credit			
	<ul style="list-style-type: none"> ▪ Tax measures to help low- and middle-income households: <ul style="list-style-type: none"> – Tax credit for the QST – Property tax refund – Tax credit for individuals living in a northern village 	<ul style="list-style-type: none"> ▪ Three tax measures grouped into a single refundable tax credit: the solidarity tax credit <ul style="list-style-type: none"> – Eligibility: any resident of Québec who is at least 18 years of age, except for a person in regard to whom another individual receives an amount for child assistance – Monthly payment as of July 2011 must be by direct deposit 	+
Home support services			
Housekeeping services	<ul style="list-style-type: none"> ▪ Service is provided at a frequency of at least once a week 	<ul style="list-style-type: none"> ▪ Frequency reduced to at least once every two weeks 	+
Nursing services	<ul style="list-style-type: none"> ▪ Service is assured for a period of at least seven hours a day 	<ul style="list-style-type: none"> ▪ Frequency reduced to at least three hours a day ▪ Applies as of 2010 	+
Child-care expenses and work premium			
	<ul style="list-style-type: none"> ▪ Advance payment on a quarterly basis 	<ul style="list-style-type: none"> ▪ Advance payment on a monthly basis as of 2011 	+
Indemnity for clinical trial			
Indemnity received by a research subject for his participation in a clinical trial	<ul style="list-style-type: none"> ▪ Indemnity is taxable 	<ul style="list-style-type: none"> ▪ Indemnity is non-taxable up to \$1,500 a year ▪ Applies as of 2010 	+

Consumption Taxes

	Current measures	Proposed measures	
Additional increase in the rate of QST on January 1, 2012			
	<ul style="list-style-type: none"> ▪ Current QST rate: 7.5% ▪ January 1, 2011 rate: 8.5% 	<ul style="list-style-type: none"> ▪ Rate increased to 9.5% ▪ Applies as of January 1, 2012 ▪ Consequential amendments provided for various factors and administrative methods 	-
Improvement to the partial QST rebate regarding a new residential unit			
	<ul style="list-style-type: none"> ▪ Maximum rebate of 36% if the value of the unit is \$200,000 or less ▪ No rebate if value is \$225,000 or more 	<ul style="list-style-type: none"> ▪ Rate increased to 50% ▪ Threshold value at which no rebate is granted is increased to \$300,000 ▪ Applies after December 31, 2010 	+
QST with respect to a passenger transportation			
QST on a passenger transportation service beginning at Gatineau airport and ending in Canada	<ul style="list-style-type: none"> ▪ Current zero-rating measure to support competition, since same services provided from the Ottawa airport are not subject to QST or to Ontario provincial sales tax 	<ul style="list-style-type: none"> ▪ Since Ontario is adopting the HST, the QST zero-rating measure is repealed ▪ Change applies as of July 1, 2010 	+
Measures to harmonise QST to GST system			
		<ul style="list-style-type: none"> ▪ Harmonisation with measures announced by Minister of Finance of Canada: <ul style="list-style-type: none"> – Place of supply rules – Purely cosmetic procedures – Simplification of the GST for the direct selling industry – Technical proposals regarding financial services in relation to recent court decisions – Rebate and self-assessment measures of the provincial component on the transfer of property from one province to another – Filing returns electronically 	+
Change to the tax structure of the pari mutuel			
	<ul style="list-style-type: none"> ▪ When a person makes a bet in Québec under a pari mutuel system on a horse race held at a racetrack in or outside Québec, the current tax rate is between 4% and 10%, depending on the bet 	<ul style="list-style-type: none"> ▪ Single rate of 2.50% for bets made after March 30, 2010 	+

Consumption Taxes

	Current measures	Proposed measures	
Gradual rise in the fuel tax			
	<ul style="list-style-type: none"> ▪ Current fuel tax rate: <ul style="list-style-type: none"> – 15.2 cents/litre of gasoline – 16.2 cents/litre of diesel 	<ul style="list-style-type: none"> ▪ Rate increased by 1 cent/litre on April 1, 2010, 2011, 2012 and 2013 ▪ Persons required to collect tax in advance must do an inventory count and remit tax calculated on the rate difference 	-
Specific tax applicable to alcoholic beverages sold by a small-scale producer			
Further reduction of the specific tax applicable to alcoholic beverages, other than beer, sold by a small-scale producer	<ul style="list-style-type: none"> ▪ Reduction of the rates applicable on the first hectolitres sold by a small-scale producer whose worldwide volume sold in a calendar year does not exceed 5,000 hectolitres 	<ul style="list-style-type: none"> ▪ Increase in maximum annual volume to benefit from the reduced rate at 15,000 hectolitres ▪ Additional rate reduction applies after March 30, 2010 	+
Water royalty			
	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ Royalty payable by businesses in the industrial and commercial sectors drawing 75 m³ of water or more per day ▪ Rate: <ul style="list-style-type: none"> – \$0.0025/m³ of water for businesses using water in their production processes – \$0.07/m³ of water for businesses using water as a component of their products ▪ Applies as of January 1, 2011 	-

Harmonisation measures March 4, 2010 Federal Budget

	Federal measures	Québec measures
Registered disability savings plan (RDSP)		
	<ul style="list-style-type: none"> ▪ Transfer of a deceased taxpayer's RRSP to the RDSP of a child or grandchild with a deficiency and who was financially dependent on the deceased individual 	<ul style="list-style-type: none"> ▪ Harmonisation
Registered charities		
	<ul style="list-style-type: none"> ▪ Change to calculation of disbursement quota 	<ul style="list-style-type: none"> ▪ Harmonisation
Stock option		
	<ul style="list-style-type: none"> ▪ Changes to hybrid stock option plans ▪ Repeal of the election to defer inclusion of the taxable benefit until disposal of optioned shares for employees of a publicly-traded company ▪ Special reduction for employees of a publicly-traded company who have elected to defer the tax ▪ Clarification of deductions at source requirements 	<ul style="list-style-type: none"> ▪ Harmonisation (with specific measures for Québec)
Social security benefits received from the United States		
	<ul style="list-style-type: none"> ▪ Part of social security benefits received from the United States not taxed 	<ul style="list-style-type: none"> ▪ Harmonisation
Flow-through share plan		
	<ul style="list-style-type: none"> ▪ Changes made to the definition of "principal-business corporation" 	<ul style="list-style-type: none"> ▪ Harmonisation
International taxation		
Specified investment flow-through entity	<ul style="list-style-type: none"> ▪ Changes made to the acquisition of control rules upon the conversion of a specified investment flow-through entity to a corporation 	<ul style="list-style-type: none"> ▪ Harmonisation
Taxable Canadian property	<ul style="list-style-type: none"> ▪ Changes to the definition of taxable Canadian property 	
Foreign tax paid	<ul style="list-style-type: none"> ▪ Changes made to the relief mechanism applicable to foreign tax paid 	
Capital cost allowance		
Clean energy generation	<ul style="list-style-type: none"> ▪ Inclusion in class 43.2 of a more extensive range of heat recovery equipment and distribution equipment of a district energy system 	<ul style="list-style-type: none"> ▪ Harmonisation

Harmonisation measures March 4, 2010 Federal Budget

	Federal measures	Québec measures
Set-top boxes	<ul style="list-style-type: none"> ▪ Increase and harmonisation of declining balance rates to 40% applicable to satellite and cable set-top boxes 	
Universal child care benefit (UCCB)		
	<ul style="list-style-type: none"> ▪ Possibility to designate the amounts received by the head of a single-parent family on account of the UCCB as income of the head of a single-parent family, as income of the person for whom the eligible dependant tax credit is claimed or, subject to certain conditions, as income of one of the children for whom the amount is paid 	<ul style="list-style-type: none"> ▪ Not harmonised

Your Raymond Chabot Grant Thornton consultant can help you take advantage of these new measures. Please do not hesitate to contact us.

This Bulletin is published by Raymond Chabot Grant Thornton for its clients. It is not intended to be an exhaustive review of statutes. Readers should not make any decisions without consulting their tax advisor..