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Tax Alert — Canada

Quebec budget 2019-20

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

"With our first budget, we are fulfilling our commitments to Quebecers. We are putting money back in their pockets and investing to improve health and education services. We are also supporting economic development to enable us to provide quality public services in the long term. All our choices are guided by the desire to address the concerns of Quebecers while respecting their ability to pay and safeguarding fiscal balance."-

Quebec Finance Minister Éric Girard,

2019-20 budget speech

On 21 March 2019, Quebec Finance Minister Éric Girard tabled the province's fiscal 2019-20 budget. The budget revolves around six major measures: put money back in the pockets of Quebecers; improve education and health services; create wealth and increase the potential of the economy; act for the environment; support communities and start work on projects that Quebecers have been waiting to see.

The minister provides for the maintenance of a balanced budget for the next five years without using the stabilization reserve. In addition, the government confirms that the objective to reduce the gross debt to 45% of GDP by 2025-2026 will be achieved five years earlier than expected.

Following is a brief summary of the key tax measures.

Business tax measures

Corporate tax rates

No changes are proposed to the corporate tax rates or the $500,000 small-business limit.

Quebec's 2019 and 2020 corporate tax rates are summarized in Table A.

Table A –Corporate tax rates

	2019		2020	
	QC	Federal and QC combined	QC	Federal and QC combined
Primary sector and M&P small -business tax rate* **	4.00%	13.00%	4.00%	13.00%
Small-business tax rate* *** ****	6.00%	15.00%	5.00%	14.00%
General corporate tax rate	11.60%	26.60%	11.50%	26.50%

* The small-business rate is prorated based on a 31 December year-end.

**CCPCs engaged in M&P activities in Quebec may be eligible for a reduction in the regular small-business rate. The additional deduction rate reaches the maximum where the proportion of activities in the primary or M&P sector is 50% or more and is reduced linearly where the proportion is between 50% and 25%.

*** The federal small-business rate was reduced from 10.0% to 9.0% effective 1 January 2019.

****Quebec will further reduce the small-business rate for sectors other than the primary and M&P sectors to 4.0% on 1 January 2021.

Capital cost allowance

Budget 2019 confirms the government's intention to proceed with the following three capital cost allowance (the "CCA") measures that were announced in the fall 2018 *Update on Québec's Economic and Financial Situation*:

- An increase to 100% in the depreciation rate in respect of computer hardware, manufacturing and processing equipment, clean energy generation equipment and intellectual property
- The introduction of enhanced depreciation through an enhancement of the usual accelerated capital cost allowance in the year of acquisition in respect of all other types of investment
- The implementation of a new permanent additional capital cost allowance of 30% applicable in respect of computer hardware, manufacturing and processing equipment, clean energy generation equipment and intellectual property

The increase to 100% in the depreciation rate applicable in respect of M&P manufacturing equipment (previously qualifying for a temporary accelerated CCA rate of 50% on a declining-balance basis), manufacturing and processing equipment, (previously qualifying for a temporary accelerated CCA rate of 50% on a declining-balance basis), clean energy equipment (previously qualifying for either an accelerated 30% or 50% CCA rate, both on a declining-balance basis) and intellectual property (previously qualifying for a variable rate as the depreciation rate is determined based on useful life) is available under these proposals for acquisitions after 20 November 2018 if the property becomes available for use prior to 2024. A reduced first-year write-off of 75% of the cost will be available for property that becomes available for use in 2024 or 2025, and a 55% first-year write-off will apply for property that becomes available for use in 2026 or 2027.

The proposals also include an accelerated investment incentive that provides for a temporary enhanced CCA deduction of up to three times the normal first-year CCA deduction for other capital assets subject to the CCA regime, with a few exceptions. This measure applies to property that would otherwise be subject to the current half-year rule acquired after 20 November 2018 and available for use before 2024. The enhanced allowance is reduced to two times the normal first-year CCA in the 2024–2027 period.

The proposals also include a new additional capital cost allowance. This is a new permanent additional capital cost allowance of 30% for investments in respect of:

- Computer hardware
- Manufacturing and processing equipment
- Clean energy generation equipment
- Intellectual property

Together with the increase in the depreciation rate to 100%, the new additional capital cost allowance will allow businesses to deduct 130% of the value of their eligible investment in computing their taxable income.

Reduction of the capital investment threshold applicable to a large investment project in a designated region

The regions' prosperity depends in large part on the vitality of their economy. Budget 2019-20 provides for the enhancement of the tax holiday for large investment projects to support businesses in carrying out major projects in the regions.

The tax holiday for large investment projects provides businesses with tax assistance corresponding to 15% of eligible investment expenditures in the form of:

- A fifteen-year tax holiday on a corporation's income from eligible activities
- A fifteen-year holiday from employer contributions to the Health Services Fund (HSF) regarding the portion of wages paid attributable to time devoted to eligible activities

Businesses wishing to take advantage of the tax holiday have until 31 December 2020 to obtain an initial certificate from the Minister of Finance.

There are no changes to the eligibility criteria, eligible activity sectors and designated regions.

To further stimulate the carrying out of structuring projects in these designated regions, the capital investment threshold applicable to them will be further reduced, from $75 million to $50 million.

This change will apply to investment projects for which an application for an initial qualification certificate is filed after the day of the budget speech. This change may also apply to investment projects in respect of which a corporation or partnership has already applied for an initial qualification certificate on or before the day of the budget speech, but which begin to be carried out after the day of the budget speech.

To do so, the corporation or partnership must apply in writing to the Minister of Finance before 1 January 2021, but not later than the date it submits its first application for the annual certificate for its investment project.

Refundable tax credit for the retention of experienced workers

To encourage SMBs to hire or retain workers aged 60 or over, a refundable tax credit to foster the retention of experienced workers will be introduced.

Briefly, this refundable tax credit will be granted to qualified corporations that employ an eligible employee or a specified employee. It will be calculated on the employer contributions paid by the corporation in respect of such an employee. The rate of the refundable tax credit will vary based, firstly, on the individual's age and, secondly, the corporation's total payroll.

The tax credit that can be claimed by a qualified corporation with a total payroll of $1 million or less, on the employer contributions paid in respect of a specified employee, will be calculated at a rate of 50% and can total as much as $1,250 annually.

The tax credit such a corporation can claim on employer contributions paid in respect of an eligible employee will be calculated at a rate of 75% and can total as much as $1,875 annually.

For the purposes of the tax credit, an eligible corporation, for a taxation year, will mean a corporation that is not a tax-exempt corporation for the taxation year or a Crown corporation or a wholly controlled subsidiary of such corporation, that has an establishment in Quebec and carries on a business there, whose paid-up capital, for the year, is less than $15 million and, except where the corporation is a primary and manufacturing sector corporation for the year, whose total remunerated hours for the year exceeds 5,000.

A qualified corporation that is a member of a qualified partnership can also claim this refundable tax credit.

Generally, an eligible employee will mean, respectively, an employee of the corporation at a time in the calendar year that ended in the taxation year, or of the partnership at a time in the calendar year that ended in the fiscal period, who is aged 65 or over on 1January of the calendar year.

Generally, a specified employee will mean, respectively, an employee of the corporation at a time in the calendar year that ended in the taxation year, or of the partnership at a time in the calendar year that ended in the fiscal period, who is aged at least 60 but no older than 64 on 1January of the calendar year.

To encourage experienced workers to remain in or re-enter the labour market, the tax system grants them a tax credit that allows them to eliminate the income tax payable on a portion of their work income.

See also "Personal tax measures."

Increased amounts for business investment and growth

To achieve its objectives related to business investment, attracting foreign investment, innovation and exports, the government is revising its current economic development intervention model to increase its investment in several programs, a number of which are described below.

- Enhancing the Exportation program

  The Exportation program aims at preparing Québec businesses to export and supports them in the development and diversification of their markets. This program contributes to the hiring of specialists in foreign market development and to the financing of studies and promotional tools. In order to increase the number of Québec exporting businesses and support the diversification and consolidation of export markets, Budget 2019-20 provides $35 million over five years to enhance the Exportation program.

- Supporting investment by SMBs in more sectors

  The ESSOR program supports businesses in the manufacturing and propulsive tertiary sectors for capital and equipment financing to increase their productivity or production. The investments made aim, in particular, at facilitating the technological, digital and green transition of SMBs in these sectors. In order to extend the ESSOR program to businesses in a larger number of sectors of activity and enable it to carry out more interventions, Budget 2019-20 provides additional appropriations of $36.4 million.

- Enhancing the Audit industrie 4.0 program

  Industry 4.0 is the interconnection of equipment and systems, combined with the use of the Internet and data collection. Digital audits measure the digital maturity of a business and support the development of a digital transformation plan that takes into account strategic and operational challenges. Budget 2019-20 provides $11.5 million over five years to enhance the current Audit industrie 4.0 program for businesses in the manufacturing sector, and to expand it to benefit businesses in other sectors.

- Enhancing the Programme Innovation Bois

  The objective of the Programme Innovation Bois is to encourage investment by businesses and research centres so as to support the creation of innovative products and processes in the forestry sector. To support innovation in the forest products industry, Budget 2019-20 provides a $50-million increase over five years to the Programme Innovation Bois, increasing the program's envelope from $45 million to $95 million for the period 2019-2020 to 2023-2024.

Personal tax measures

Personal income tax rates

No changes to personal income tax rates were announced in the budget.

Table B provides a summary of Quebec personal income tax rates for 2019.

Table B – Quebec personal income tax rates for 2019

Rate applicable to the first bracket	Rate applicable to the second bracket	Rate applicable to the third bracket	Rate applicable to the fourth bracket
$0 to $43,790	$43,791 to $87,575	$87,576 to $106,555	Above $106,555
15.00%	20.00%	24.00%	25.75%

Table C shows the combined federal and provincial personal income tax rates for 2019 for taxable income above $106,555.

Table C – Combined federal and provincial personal income tax rates for 2019 for taxable income above $106,555

Bracket	Ordinary income*	Eligible dividends	Non-eligible dividends
$106,556 to $147,667	47.46%	31.93%	39.53%
$147,668 to $210,371	49.97%	35.39%	42.41%
Above $210,371	53.31%	40.00%	46.25%

*The rate on capital gains is one-half the ordinary income tax rate.

Enhancement of the tax credit for experienced workers to bank on career extension

To encourage a greater number of experienced workers to remain longer in or to re-enter the labour market, the age of eligibility for the tax credit will be lowered from 61 to 60 years starting in the 2019 taxation year. For the new category of workers aged 60 and workers aged 61 to 64 years, the maximum amount of eligible work income on which the tax credit will be calculated for workers aged 60 to 64 will be $10,000.

The following table shows the change in the tax credit for experienced workers as of the 2019 taxation year.

Age of worker	Amount before increase	Increased amount	Increase	Maximum tax cut
60 years	-	10,000	10,000	1,500
61 years	3,000	10,000	7,000	1,050
62 years	5,000	10,000	5,000	750
63 years	7,000	10,000	3,000	450
64 years	9,000	10,000	1,000	150
65 years and older	11,000	11,000	-	-

*The maximum tax cut is obtained by applying the tax credit rate of 15% to the amount of the increase.

The tax credit will be renamed the tax credit for career extension as of the 2019 taxation year.

Increase in the exemption for support payments in respect of dependent children

Eligibility and the amount granted to households that apply for financial assistance under certain government programs are determined on the basis of total household income, including income from child support payments. Consequently, households that receive income from child support payments may see their benefit amount go down or be deemed ineligible for the program because such income is added to the household's other income sources.

Budget 2019-20 raises the exemption for income from child support payments from the calculation of government financial assistance.

The exemption will increase from $100 to $350 per month per child for the social assistance programs, $1,200 to $4,200 per year per child for the student financial assistance program and $0 to $4,200 per year per child for the legal aid and housing assistance programs.

Gradual elimination of the additional contribution for childcare

Starting in 2019, the additional contributions for childcare service will be reduced by $0.70 a day. With this reduction, families with an income below $78 320 will no longer pay the additional contribution and families with an income above that amount will pay a lower contribution (maximum additional contribution of $13.20).

In 2022, no family will have to pay the additional contribution.

Continued support for green renovations and more energy-efficient homes

To reduce Quebec households' energy consumption and foster the use of renewable energy sources, the government is maintaining a number of green construction and renovation programs for high-energy-performance homes, namely:

- the Chauffez vert program, which grants homeowners financial assistance for the replacement of fossil-fuel heating systems with systems that use electricity or other renewable sources of energy
- the Rénoclimat program, which grants financial assistance for insulation work or work affecting the airtightness of a home, replacement of windows and doors, and installation and replacement of mechanical systems to reduce energy consumption in homes
- the Novoclimat program, which grants financial assistance for the construction of homes that offer energy performance that exceeds the norms in effect
- the Éconologis program, which offers free advice to low-income households to help them make their homes more energy efficient

For the period 2018 to 2023, $330 million in funding will be earmarked for improving energy use in the residential sector.

Québec sales tax

Requirement for suppliers outside Québec to register for and collect Québec sales tax ("QST")

The government is continuing the initiatives launched under the Action Plan, made public in fall 2017, concerning the requirement for suppliers outside Quebec to collect the QST. As of 1 January 2019, foreign suppliers of incorporeal property and services are required to register for the QST, collect the tax and remit it to Revenu Québec.

Canadian suppliers located outside Quebec have until 1 September 2019 to register for the QST and collect the tax on supplies sold to Québec consumers.

Other tax measures

Extension of the Attestation de Revenu Québec to public building cleaning services

To fight against tax evasion and unreported work in public building cleaning services, the government has extended the application of the Attestation de Revenu Québec in respect of persons registered for the QST, except for building managers. Extension of the Attestation de Revenu Québec will apply to public-building cleaning contracts in the amount of $10,000 or more.

The administrative terms and conditions as well as the information to be provided to Revenu Québec will be specified at a later date.

Encouraging sustainable transportation

The Drive Green program, which provides for the funding of rebates for the purchase of new electric vehicles, will be extended until 2021.

In addition, owing to the positive findings of an independent analysis and the popularity of the pilot project to promote the purchase of used electric vehicles, used all-electric vehicles will now be covered by the Drive Green program.

As of 2020-2021, the Drive Green program will be reviewed to limit the application of the rebates to vehicles costing less than $60,000, as shown in the table below:

Manufacturer's suggested retail price	New vehicles		Used vehicles	
	2019-2020	2020-2021	2019-2020	2020-2021
Under $60,000	8,000	8,000	4,000	4,000
$60,000 to $75,000	8,000	-	4,000	-
$75,000 to $125,000	3,000	-	1,500	-
$125,000 and over	-	-	-	-

Mandatory registration for the tax on lodging

Currently, a person operating a digital accommodation platform may register voluntarily in the tax on lodging system. Changes will be made to the tax on lodging system so that a person operating a digital accommodation platform will henceforth be required to register with Revenu Québec for the purposes of collecting and remitting the tax on lodging.

A person so registered will be required to collect the 3.5% tax on the price of every overnight stay in respect of any accommodation unit covered by the system.

The change will apply from the first day of the first calendar quarter beginning at least 180 days after the date on which the bill implementing these measures is assented to.

Introduction of a sustainable development certification allowance in the *Mining Tax Act*

An operator may deduct, in the calculation of its annual profit for a fiscal year, an amount on account of the sustainable development certification allowance, which may not exceed, for the fiscal year, the amount corresponding to its cumulative sustainable development certification expenses at the end of the fiscal year.

The amount of the cumulative sustainable development certification expenses of an operator, at a particular time, will correspond to the amount by which the aggregate of the sustainable development certification expenses incurred by the operator before that time, but after the day of the budget speech, exceeds the aggregate of the amounts deducted by the operator on account of the sustainable development certification allowance in the calculation of the operator's annual profit for a fiscal year ended before that time.

Changes will be made to the refundable duties credit for losses of an operator, to take into account the introduction of the sustainable development certification allowance.

These changes will apply to a fiscal year of an operator that ends after the day of the budget speech, in respect of sustainable development certification expenses incurred after that day.

International tax measures

The Canada Revenue Agency (the "CRA") and Revenu Québec stepped up their cooperative efforts with the primary aim of exchanging new types of information relating to international activities carried out by individuals or businesses operating in Québec. For that purpose, a strategic committee uniting the two agencies was set up.

As well, the CRA will ask a number of foreign jurisdictions for authorization to use information from the common reporting standard for the automatic exchange of financial account information and country-by-country reports of multinational entities for the collection of income tax by the provinces. Such authorization would give Revenu Québec access to that information when it is provided by the jurisdiction.

In addition, in January 2019, a joint team composed of employees from the CRA and Revenu Québec was struck for the purpose of optimizing the two bodies' efforts in the area of transfer pricing audits.

Lastly, the government is continuing its efforts to gather information in regards to the BEPS Project. Additional data on the international activities of companies with operations in Québec will be published in Statistiques fiscales des sociétés (Corporate Tax Statistics). The government will begin developing indicators that are in line with the objectives of the BEPS

Project. The indicators will enable measuring and monitoring of base erosion and profit shifting in Québec.

Learn more

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