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tax & business **Alert**

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BUDGET HIGHLIGHTS:

- Introduction of the new voluntary retirement savings plans (VRSPs) starting January 1, 2013.
- Stepping up tax audit activities at Revenu Québec and the fight against tax evasion in at-risk sectors.
- Refundable tax credit pertaining to the diversification of markets of Québec manufacturing companies
- Incentives for experienced works over 65

INSIDE THIS ISSUE:

QUEBEC BUDGET 2012-2013

The Finance Minister, Raymond Bachand, presented the Québec government budget at the National Assembly this afternoon and reaffirmed the government's plan to achieve a balanced budget by 2013-2014. Mr. Bachand stated that the government is meeting its budgetary deficit reduction targets, mainly by slowing the growth of its spending. The budget contains very few tax measures, particularly with regards to corporate tax. Essentially, there are no changes to the tax rates. The following is a summary of the highlights contained in the budget.

Individuals

GREATER SUPPORT FOR ENERGY-EFFICIENT RENOVATIONS

To encourage more homeowners to make their homes more energy-efficient, the budget provides for enhancement of the Rénoclimat program, including:

- an increase of over 60% in the financial assistance currently granted;
- extension of the program to buildings with 4 to 20 housing units;
- reduction of the cost of the first energy evaluation from $150 to $50;
- elimination of the participation limit of once per home.
- These measures apply to people participating in the program who have their second energy evaluation done on or after April 1, 2012. The measure will raise the average amount granted to Québec households from $1,100 to nearly $1.900.

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Corporations

PAYROLL TAX REDUCTION TO PROMOTE THE EMPLOYMENT OF WORKERS 65 AND OVER

To promote the hiring and retention of experienced workers, Budget 2012-2013 provides for the introduction of a payroll tax reduction respecting the salary paid to an experienced worker.

- The reduction will apply at a rate of 10% for employers in the private sector.
- It will thus offset a portion of the tax and incidental expenses imposed on payroll.
- The reduction will apply to the salary, in excess of $5,000, paid to an experienced worker. The maximum reduction per experienced worker will be $400 in 2013 and will rise gradually, reaching $1,000 in 2016

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Look for our Federal Budget Newsletter on March 29, 2012

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ELIGIBLE EMPLOYERS

All employers, with the exception of public and parapublic enterprises, which include:

- the governments of Canada and Québec;
- Québec municipalities;
- agencies that are mandataries of the State;
- public bodies exempt from tax performing a function of government.

ELIGIBLE SALARIES

Salaries earned by workers 65 and over, excluding taxable benefits related to previous employment. Salaries in excess of $5,000, up to an excess salary of :

- $4,000 in 2013;
- $5,000 in 2014;
- $8,000 in 2015;
- $10,000 as of 2016.

APPLICATION

- Applicable against the employer's contribution to the Health Services Fund.

Individuals

NEW VOLUNTARY RETIREMENT SAVINGS PLANS (VRSPs)

A new VRSP is being introduced by the government which includes the following main characteristics for employers:

OBLIGATION TO OFFER A VRSP

Companies with five or more employees with at least one year of uninterrupted service and that do not already offer all their employees the possibility of contributing to a retirement savings plan through payroll deductions will be required:

- to choose a VRSP to offer to their employees;
- to enrol all their employees with at least one year of uninterrupted service in a VRSP;
- make source withholdings of employee contributions and remit them to the VRSP administrator.

EXEMPTION FOR SMALL BUSINESSES

- Employers with fewer than five employees with at least one year of uninterrupted service will not be required to offer a VRSP. However, they may offer it voluntarily.

AUTOMATIC ENROLMENT OF WORKERS

- If the employer is required to offer a VRSP, employees with at least one year of uninterrupted service will have to be enrolled automatically.

EMPLOYER CONTRIBUTION

- The employer will not be required to contribute.
- As with registered pension plans, if the employer decides to contribute, the contributions he pays will not be subject to payroll taxes.
- The employer's contributions will be deductible from its taxable income for Québec and federal tax purposes.

EMPLOYER COMPLIANCE PERIOD

- Employers will have until January 1, 2015 to comply with the obligation to offer a VRSP.
- After the initial compliance period, an employer that is covered by the obligation to offer a VRSP will have one year to comply with it.

EMPLOYER OVERSIGHT

- The Commission des normes du travail will be responsible for overseeing employers. It will intervene, in particular regarding complaints, to enforce the provisions of the law.

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Readers are reminded that while budget proposals are customarily given the effect of law immediately, the amending legislation, when ultimately adopted by the National Assembly, may be altered to some degree.

2012 QPP Limits and Rates

The limits and rates related to the Québec Pension Plan (QPP) for 2012 are as follows:

- The maximum pensionable earnings have been increased from $48,300 to $50,100.
- The basic exemption is $3,500.
- The maximum contributory earnings have been increased from $44,800 to $46,600.
- The contribution rate has been increased from 4.95% to 5.025% for both employers and employees.
- The maximum employee contribution has been increased from $2,217.60 to $2,341.65.
- The maximum employer contribution has been increased from $2,217.60 per employee to $2,341.65 per employee.
- The contribution rate for self-employed persons has been increased from 9.9% to 10.05%.
- The maximum contribution for a self-employed person has been increased from $4,435.20 to $4,683.30.

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The main characteristics of the VRSP for employees:

CONTRIBUTION RATE

The default employee contribution rate will be:

- 2% from January 1, 2013 to December 31, 2015;
- 3% from January 1, 2016 to December 31, 2016;
- 4% as of January 1, 2017.
- The participant will always be authorized to change his contribution rate and will have the option of ceasing to contribute for a certain time.

TAX TREATMENT OF CONTRIBUTIONS

- The participant's contributions will be deductible for taxable income. Contributions to a VRSP, which will be in addition to those made to an RRSP, will be subject to the same annual cap as RRSPs, i.e. a maximum of 18% of earned annual income.
- The amounts accumulated will not be taxed unless they are withdrawn.

WITHDRAWAL OF ACCUMULATED AMOUNTS

- Like RRSPs, an employee's contributions may be withdrawn before retirement.
- Amounts withdrawn before retirement will be subject to Québec and federal tax.
- Employer contributions may only be withdrawn as of age 55.

WITHDRAWING FROM A VRSP

- Employees who have been automatically enrolled will have 60 days after enrolment to withdraw failing which contributions will start being deducted from their pay.

INVESTMENT CHOICES

- The default option will be based on a "life cycle" approach in which the risk level is adjusted based on the participant's age.
- There will be a maximum of five other investment options.

POSSIBILITY OF OPTIONAL ENROLMENT

- Those not automatically enrolled, such as self-employed workers or individual savers, may enrol in a VRSP by contacting a plan administrator directly.

NEW REFUNDABLE TAX CREDIT PERTAINING TO THE DIVERSIFICATION OF MARKETS OF QUÉBEC MANUFACTURING COMPANIES

To support manufacturing SMEs required to comply with the standards applicable in their target markets, the budget provides for the introduction of a tax credit to reduce the costs related to complying with certain standards imposed by foreign jurisdictions.

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The tax credit will be administered by Investissement Québec. They will be responsible for issuing certificates attesting that the corporation carries out activities eligible for the tax assistance.

This assistance will apply to eligible expenditures incurred after the day of Budget 2012-2013 and before January 1, 2016.

ELIGIBLE CORPORATIONS

Manufacturing corporations operating a business in Québec and holding a qualification certificate issued by Investissment Québec confirming that the corporation:

- has assets under $50 million;
- carries out eligible activities in a proportion of 75% or more.

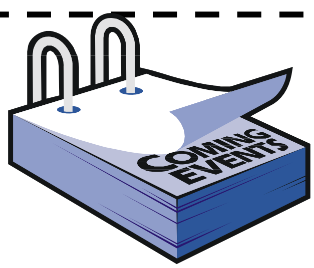
ELIGIBLE EXPENDITURES

Expenses incurred by corporations seeking to comply with existing standards in jurisdictions outside Québec with respect to activities carried out in Québec:

- expenses of accreditation bodies;
- fees of outside, arm's-length consultants (Québec or foreign consultants).

RATES

- 30% of eligible expenditures incurred by corporations.
- $150,000 limit per corporation on eligible expenditures for the duration of the application of the tax credit.
- Expenditures must be incurred after the day of Budget 2012-2013 and before January 1, 2016.



ALERT DATES

March 31, 2012	Deadline for filing income tax returns by an inter-vivos trust and other personal trusts with a December 31, 2011 taxation year-end.
	Filing date for T-5013 of partnerships.
April 30, 2012	Deadline for filing personal income tax returns other than those permitted to file by June 15.
June 15, 2012	Second installment due for individuals required to make income tax installments.
	Filing date for individuals reporting business income including professional income and their spouses
September 15, 2012	Third installment due for individuals required to make income tax installments.

Other Measures

FIGHT AGAINST TAX EVASION AND UNREPORTED WORK

Tax recovery targets have been set for Revenu Québec as part of the plan to restore fiscal balance. In addition to its regular tax recovery activities, Revenu Québec was expected to recover an additional $555 million for 2011-2012.

Following the change in Revenu Québec's status to that of an agency, the targets were revised upward to $705 million.

The minister has confirmed that these targets will be achieved.

Tax losses linked to unreported work remain substantial. They are estimated at $3.5 billion for 2008.

Tax losses are most substantial in the following sectors:

- residential (29%) and non-residential (14%) construction;
- restaurants (12%);
- tobacco products (6%).

The estimate of $3.5 billion does not include certain unproductive activities for which it is difficult to estimate losses for the government:

- concealing income;
- disobeying tax rules (e.g.: fraudulent input tax rebate);
- tax avoidance (e.g.: aggressive tax planning).

TAX AUDITS – TRUSTS

Generally, a trust that has income from its activities in Québec does not have to file a tax return or an information return if:

- it has no tax payable;
- it did not allocate income to an individual residing in Québec or to a corporation having an establishment there;
- it did not realize a taxable capital gain.

This is the case, in particular, where a trust that resides in Québec allocates its income to beneficiaries who do not reside in Québec.

Accordingly, Revenu Québec is not in a position to identify all the trusts with activities in Québec as well as their settlors, their trustees and their beneficiaries.

As a result, tax audits of trusts are more difficult.

In the course of tax audits, Revenu Québec has noted that rental income from certain major commercial buildings located in Québec is not subject to any tax under the Taxation Act and that some non-resident trusts have become residents of Canada, outside Québec, before alienating their rental building located in Québec so that the taxable capital gain resulting from such alienation eludes Québec tax.

Because of these factors, the Ministère des Finances is announcing, as part of Budget 2012-2013, amendments to the tax legislation concerning the taxation of inter vivos trusts that are not resident in Canada.

ABOUT LEVI & SINCLAIR

LEVI & SINCLAIR is a firm of chartered accountants that traces its origin in Montreal to 1950. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with a steadfast commitment to consistently deliver excellence. Our Chartered Accountants and Business Consultants provide advisory services on a broad range of issues to both our individual and corporate clients. The members of our firm possess unique talents, expertise and experience, giving our clients access to a knowledge base of considerable breadth and depth. Together with our support personnel, we share a commitment to developing practical solutions for the business challenges of today, and to devising strategies for tomorrow.

OUR SERVICES

Our firm takes pride in adding value to every client that we serve through our extensive expertise and proactive approach to your financial needs. We match our dedication to adding value with experience and expertise: we have experience in servicing virtually every type of industry and professional practice.

TAXATION

Our office has a strong basis in federal and provincial tax issues. Our tax group has been in existence for 50+ years and is highly qualified and experienced. Our accountants work hard to minimize your taxes, yet make sure that you fulfill your tax requirements ethically while working to add value. We can fill a variety of tax needs, both domestic and international as well as corporate and personal. Our specialties lie in tax reporting and representation, tax planning (business, personal, divorce and litigation), tax structuring of entities and transactions and tax research.

FINANCIAL

LEVI & SINCLAIR can meet all of your basic financial needs with our exemplary Accounting Services Group that can truly add value whether it's your business or your personal finances that we are reviewing. We work with business entities as well as non-profits and foundations. Our accounting services include; auditing and compilation review of financial statements, budgets and forecasts, and government reporting. We won't simply process your financial statements, our mission is to add value. We will go the extra mile to help you forecast or locate opportunities that you may be missing.

BUSINESS CONSULTING

LEVI & SINCLAIR's Business Consulting unit has proven itself as a valuable resource to businesses of all kinds. We can help you plan your future, whether you see it coming or not. We can help you bring seminal business events to life; like mergers and acquisitions, business valuation, leases and contracts, or business development plans, all of which take a huge amount of planning and attention to detail. If there are no big events on your horizon, we can still be of service by helping you to anticipate the unexpected through our forecasting, real estate projections, risk management assessments, or our feasibility studies. We look at your business and all of its many facets, to find both issues and opportunities and bring that valuable insight to you.

LITIGATION SUPPORT AND DISPUTE RESOLUTION SERVICE AREAS

- **Civil and criminal Fraud Investigation**
- **Management and employee fraud and theft**
- **Identification of secret commissions and kickbacks**
- **Sarbanes-Oxley compliance audits**
- **Sarbanes-Oxley 404 audits**
- **Intellectual Property Litigation Support**
- **Training on fraud awareness and prevention**
- **Due Diligence Audits**
- **Business valuation**
- **Fairness opinions**
- **Insurance claim assistance**
- **Retail sales audits**
- **Contract dispute resolution**
- **Professional negligence litigation support**
- **Fraud prevention program design, implementation and evaluation**
- **Bank due diligence audits**
- **Employee background audits**
- **Financial discrepancy analysis**
- **Divorce litigation support**
- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

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