

June 4, 2014

BUDGET HIGHLIGHTS: SPENDING MANAGEMENT

- General freeze on staffing levels in the public and para-public sectors in 2014-2015 and 2015-2016.
- No new programs unless its cost is offset by savings elsewhere.
- Immediate tightening of tax expenditures.

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tax & business Alert

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QUEBEC BUDGET 2014-2015



The Québec Finance Minister, Carlos J. Leitão, presented his first and Quebec’s second 2014-2015 budget at the National Assembly this afternoon and announced that the government will incur a deficit of \$3.1 billion for 2013-2014 and \$2.35 billion in 2014-2015. He further stated that the budget will be balanced in 2015-2016.

The following is a summary of the highlights contained in the budget.

Individuals

ADJUSTMENT TO THE ELIGIBILITY AGE FOR RETIREMENT INCOME SPLITTING BETWEEN SPOUSES

Since 2007, Québec’s personal tax system has included an income splitting mechanism that enables couples receiving certain retirement income to reduce their overall tax burden.

Under the mechanism, an individual may transfer up to 50% of his retirement income eligible for splitting to his spouse and deduct the split income in calculating his income, provided such income is included in calculating the income of his eligible spouse.

Some types of retirement income, such as retirement income paid by an RPP,

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Corporations

GENERAL REDUCTION OF THE TAX RATE FROM 8% TO 4% FOR MANUFACTURING SMES

The government is implementing, as a part of Budget 2014-2015, generally applicable measures that will enable SMEs to free up funds that they can then use to develop their ability to export.

These measures are:

- a general reduction of the tax rate from 8% to 4% between now and April 1, 2015 for manufacturing SMEs;
- The tax rate will be reduced from 8% to 6% starting on the day following the day of the Budget Speech and will be reduced to 4% starting April 1, 2015.
- an additional deduction in the calculation of taxable income for manufacturing SMEs remote from major urban centres to offset their higher transportation costs.

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NO CHANGES TO QUEBEC’S PERSONAL INCOME TAX RATES WERE ANNOUNCED IN THE BUDGET.

Corporations

(Continued from page 1)

The expression “manufacturing SME”, for a given taxation year, means a corporation at least 25% of whose activities consist of manufacturing and processing activities.

The actual eligibility and amount of tax rate reduction will be based upon formulae that involve the proportion of a corporation’s activities attributable to manufacturing and processing activities consisting of assets and labour.

ADDITIONAL DEDUCTION FOR TRANSPORTATION COSTS OF REMOTE MANUFACTURING SMES

Budget 2014-2015 provides for the implementation of an additional deduction in calculating income for tax purposes, corresponding to:

- 2% of gross income, with a \$100 000 cap per corporation, for manufacturing SMEs located in the intermediate zone;
- 4% of gross income, with a \$250 000 cap per corporation, for manufacturing SMEs located in the remote zone;
- 6% of gross income, with no cap per corporation, for manufacturing SMEs located in the special remote zone.

The zones are defined as follows:

- the major urban centres, i.e. the Montréal, Québec and Gatineau census metropolitan areas (CMAs), will not be eligible;
- the intermediate zone will be defined as the territory, delimited by the RCMs, within a radius of 100 kilometres of Gatineau or Québec or within a radius of 150 kilometres of Montréal;
- the remote zone will be defined as the territory, delimited by the RCMs, beyond a radius of 100 kilometres of Gatineau or Québec or beyond a radius of 150 kilometres of Montréal;
- the special remote zone will be made up of territories more isolated from the rest of Québec, i.e. the municipality of L’Île-d’Anticosti, the agglomeration of Îles-de-la-Madeleine, the Golfe-du-Saint-Laurent MRC (Côte-Nord) and the Kativik Regional Government (Nord-du-Québec).

The rate of the additional deduction an eligible corporation may claim for a taxation year will depend, on the rate associated with the region in Québec where it carries out its manufacturing activities (“base rate”)

and, on the level of its manufacturing activities.

NEW MEASURES TO FIGHT TAX EVASION AND UNREPORTED WORK

The government is announcing the implementation of new initiatives aimed, in particular, at:

- improving tax auditing in the construction sector;
- ensuring a greater presence in certain at-risk sectors;
- installing sales recording modules (SRMs) in bars and restaurants;
- expediting penal case management.

IMPLEMENTATION OF THE ATTESTATION FROM REVENU QUÉBEC RESPECTING PRIVATE CONSTRUCTION SITES

The government is announcing that the requirements relative to the attestation from Revenu Québec for public contracts will also apply to private construction contracts of \$25 000 or more.

As of January 1, 2015, contractors will be required to obtain an attestation from Revenu Québec and provide it to the recognized client before entering into certain private construction contracts. These requirements will apply:

- where the cumulative amount of contracts between a recognized client and a given contractor exceeds \$25 000 in a calendar year;
- to all levels of subcontracting.

The attestation from Revenu Québec will be valid for contracts entered into during a 90-day period as of the date on which it is issued. At the end of the 90-day validity period, the contractor will be required to obtain a new attestation from Revenu Québec in order to enter into new contracts.

The attestation from Revenu Québec for private construction sites applies to contractors and recognized clients operating a business. For the purposes of the attestation, the following persons, in particular, are subject to the measure:

- a contractor who holds a valid licence from the Régie du bâtiment du Québec and who is hired for a construction contract;

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- a recognized client who is a registrant within the meaning of the Act respecting the Québec sales tax and who holds a val-

id licence from the Régie du bâtiment du Québec, other than a government department, public body, state-owned enterprise, or municipality, who enters into a contract with a construction contractor holding a valid licence from the Régie du bâtiment du Québec.

Individuals

(Continued from page 1)

can be split between spouses regardless of their age, while others, for instance, from a registered retirement savings plan (RRSP), cannot be split before age 65.

To correct the unfairness caused by retirement income splitting between spouses under age 65, the government is announcing, in Budget 2014-2015, that henceforth the eligibility age for this measure will be 65 for all sources of retirement income.

ENCOURAGE ACTIVE LIVING FOR SENIORS

Budget 2014-2015 provides for a \$1 000 increase, to \$4 000 as of January 1, 2015, in the maximum amount eligible for the tax credit for experienced workers.

A NEW TAX CREDIT TO FOSTER ACTIVE AGING

Budget 2014-2015 provides for the introduction of a refundable tax credit to support the participation of seniors in physical, artistic, cultural and recreational activities.

This tax assistance will apply to eligible expenses paid as of the day after Budget Speech 2014-2015. The tax credit will represent 20% of eligible expenses not exceeding \$200 a year and target seniors 70 and over with an individual income of \$40 000 or less.

To qualify for the tax credit, an activity must generally be:

- engaged in weekly for at least eight consecutive weeks;
- structured, that is, it must enable seniors to participate in an activity in a specific setting.

A physical activity must also enable seniors to develop or maintain their cardiorespiratory endurance, their muscular strength or endurance, their flexibility or their balance.

An artistic, cultural or recreational activity must enhance seniors' ability to develop or improve their dexterity, coordination, cognitive skills, social integration or psychological well-being.

INDEXING OF THE PARENTAL CONTRIBUTION FOR CHILDCARE SERVICES

The government is announcing that the indexing of the reduced contribution for educational childcare services will be tied to the rate of growth in the cost of childcare services.

- As of October 1, 2014, the parental contribution will be raised to \$7.30 a day.
- As of September 1, 2015, the parental contribution will be raised by a factor equivalent to the annual growth in the cost of childcare services.

Furthermore, this indexing principle, tied to the change in the cost of childcare services, will enable families to benefit from the network's productivity gains.

tax & business ALERT has been prepared by LEVI & LEVI, LLP for the general information of our clients, staff and other interested parties. The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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HARMONIZATION WITH CERTAIN MEASURES OF THE FEDERAL BUDGET OF FEBRUARY 11, 2014

The 2014-2015 Budget announces the modification of Québec's tax legislation and regulations to incorporate some of the measures announced by the Minister of Finance of Canada on February 11, 2014. These changes will be adopted only after the assent of the relevant federal statutes or the adoption of the relevant federal regulations and will apply on the same dates as those applicable to the corresponding federal measures.

MEASURES RELATING TO INCOME TAX

The following measures will be incorporated to Québec's tax legislation and regulations:

- Addition of certain expenses to the list of expenses eligible for the tax credit for medical expenses;
- Introduction of a tax credit for volunteers participating in search and rescue activities;
- Measures relating to property used in the course of carrying on a farming business and a fishing business;
- Tax deferral granted to certain farmers located in regions hit by drought, flooding or excessive moisture;
- Inclusion of certain income attributed to a minor by a partnership or a trust for the purposes of calculating tax on split income;
- Elimination of graduated rate taxation for certain trusts and estates;
- Elimination of the 60-month exemption from the residency presumption rules that apply to non-resident trusts and from certain other related rules;
- Extension from five to ten years of the deferral period of gifts of ecosensitive land made by an individual;
- Donations in the context of death;
- Donations of cultural property acquired under a gifting arrangement that is a tax shelter;
- Registration of organizations or associations that receive gifts from foreign states that support terrorism;
- Change to the anti-avoidance rule concerning captive insurance corporations;
- Addition of new eligibility conditions to the exception relating to offshore regulated financial institutions;
- Change to the anti-avoidance rule currently contained in the thin capitalization rules;
- Increase in the thresholds determining how frequently employers must remit withholdings at source;
- Changes concerning the accelerated capital cost allowance for clean energy generation

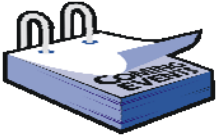
MEASURES RELATING TO THE GST/HST

In accordance with the principle of general harmonization of the Québec sales tax (QST) system with the GST/HST system, Québec's tax system will be changed to incorporate, with adaptations on the basis of its general principles and specific features arising from the provincial context, the federal measures:

- making technical changes to the provisions concerning real property to ensure consistent treatment of different types of housing and see that the special valuation rule for subsidized housing applies as it should within the framework of the rules on the place of supply as in the context of a change in the tax rate;
- clarifying the application of GST/HST public service body rebates in relation to non-profit organizations that operate certain health care facilities;
- zero-rating precious metals refining services supplied to non-resident persons not registered for the purposes of the GST/HST system;
- simplifying the tax treatment of the temporary importation of certain railcars;
- codifying the longstanding relieving provisions related to the tax treatment upon re-entry into Canada of Canadian goods on which the GST/HST has already been paid;
- updating certain legislative references stipulated in the regulations, other than the reference stipulated in the Taxes, Duties and Fees (GST/HST) Regulations, which has no equivalent in the QST system.

Other Measures

- ▶ Budget 2014-2015 is announcing a rise in the specific tax on tobacco products of \$4.00 per carton of 200 cigarettes, i.e. \$0.50 per pack effective June 5, 2014.
- ▶ Alcoholic beverages sold in Québec are subject to a specific tax whose rates depend on the type of product and where they are consumed. The government is announcing that as of August 1, 2014, the applicable rates will be the same regardless of where alcoholic beverages are consumed.
- ▶ In the case of alcoholic beverages sold for consumption at home, the specific tax on alcoholic beverages will rise from \$0.50 to \$0.63 per litre for beer and from \$1.12 to \$1.40 per litre for wine and spirits.
- ▶ For alcoholic beverages sold for consumption on-site, the tax will decline from \$0.82 to \$0.63 per litre for beer and from \$2.47 to \$1.40 per litre for wine and spirits.
- ▶ An increased contribution of \$150 million is being requested of Hydro-Québec for 2014-2015 in order to raise its net earnings to \$3.05 million comprised of \$50 million through efficiency gains; \$85 million from additional export revenues; and a \$15-million effort in remuneration through a payroll freeze.
- ▶ Creation of Entreprises Québec which will be a one-stop service provider that will provide accessible and improved service to any business. In addition to providing information and referrals, Entreprises Québec will offer guidance for all administrative formalities and all programs of the Québec government.



ALERT DATES

June 15, 2014	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, 2014	Third installment due for individuals required to make income tax installments.
December 15, 2014	Final installment due for individuals required to make income tax installments.

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.

The Quebec Voluntary Retirement Savings Plan (VRSP)

Quebec recently introduced the Voluntary Retirement Savings Plan (VRSP) Act (Bill 39). You may have responsibilities under this plan. The VRSP is Quebec's version of the federally-endorsed Pooled Registered Pension Plan (PRPP), with some variations specific to Quebec.

What is a VRSP?

VRSPs are group savings plans offered by employers and administered by authorized administrators. They are governed by the Act respecting voluntary retirement savings plans, which will take effect on 1 July 2014.

The plan is called voluntary because membership is optional. The employees determine their contribution to the plan and the employer is not required to contribute to the plan.

Which Companies are Required to Set up a VRSP?

Any Quebec business may choose to set up a VRSP for its employees but if the employer has five or more eligible employees who have at least one year of uninterrupted service on December 31 of a year, the employer will be required to join a VRSP in the following year, unless a registered pension plan or a registered retirement savings plan is in place.

If a company has five employees but they do not all have one year of uninterrupted service, the company would not be required to offer a VRSP until all five employees have attained one year of uninterrupted service.

Who is Eligible?

VRSPs are mainly for employees who do not have access to a group retirement savings plan with source deductions offered by their employers. Employees must be 18 or over and have at least one year of uninterrupted service, as defined in the Act Respecting Labour Standards.

Employees will not have to take any steps to sign up; it will be done automatically. Self-employed workers and any other interested parties will also be able to sign up for VRSPs by contacting an authorized administrator.

Deadlines

Companies covered by the Act must offer a VRSP at the latest by:

- ▶ 31 December 2016, if they have 20 or more eligible employees on 30 June 2016
- ▶ 31 December 2017, if they have 10 to 19 eligible employees on 30 June 2017
- ▶ a date to be determined by the government, which cannot be prior to 1 January 2018, if they have 5 to 9 eligible employees.

All employers with 5 or more eligible employees must create a plan and all eligible employees are automatically enrolled as members of the plan. If all eligible employees opt out of the plan, the employer should consult with an authorized plan administrator to determine how to proceed with a plan that has no members.

LogiRénov Home Renovation Tax Credit

This refundable tax credit has been implemented on a temporary basis to encourage individuals, be they owners or co-owners of a dwelling, to renovate their principal residence, expand it, adapt it to the special needs of a family member or convert it into an inter-generational home.

The renovation work must have been done by a qualified contractor under a contract entered into after April 24, 2014, and before July 1, 2015. The initial construction of the dwelling must have been completed before January 1, 2014, and the dwelling must be one of the following:

- a single-family home
- a pre-fabricated house or mobile home permanently secured in place
- a unit in a condominium building
- a dwelling in a residential duplex or triplex.

To qualify for the tax credit, the work done must essentially cover the living space of the home as well as its exterior siding and roofing. What's more, to encourage households to incorporate eco-friendly work into their home renovation projects, all work recognized for the purposes of the EcoRenov tax credit and carried out after that tax credit has expired (that is, work done under a contract entered into after October 31, 2014) will be recognized for the purposes of the LogiRénov tax credit.

You can claim the LogiRénov home renovation tax credit only for the 2014 and 2015 taxation years. You must claim it when you file your income tax return.

EXAMPLES OF WORK RECOGNIZED FOR THE PURPOSES OF THE LOGIRÉNOV TAX CREDIT

- Renovating one or more rooms of the home (kitchen, bathroom, living room, etc.)
- Finishing the basement
- Replacing floor coverings
- Replacing the plumbing
- Replacing the exterior siding
- Repairing the roofing
- Replacing the rainwater gutters
- Replacing a weeping tile, sanitary drainage, fall pipe or foundation drain

The amount of the tax credit corresponds to 20% of the portion of an individual's eligible expenses that exceeds \$3,000, up to a maximum tax credit of \$2,500 per eligible dwelling.

Rénoclimat program

Rénoclimat is a government program that is available since 2007 to encourage owners to improve the energy efficiency of their homes.

You can be eligible for financial assistance under the Rénoclimat program if you are:

- carrying out insulation work;
- carrying out work affecting your home's air tightness;
- installing or replacing mechanical systems (ventilation system, water heater, heat pump, geothermal heating system).

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