

# tax & business **Alert**

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## BUDGET HIGHLIGHTS:

- New Health Tax Contribution and elimination of flat Health Tax.
- Stepping up tax audit activities at Revenu Québec and the fight against tax evasion in at-risk sectors.
- Incentives for experienced works over 65 frozen at \$3,000.
- Ten year tax holiday for large investment projects.
- Increased taxes for high earners.
- Taxation of government tax credits such as the R&D and Design Tax credits.
- Increased day care spaces.

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## QUEBEC BUDGET 2013-2014



The Québec Finance Minister, Nicolas Marceau, presented the 2013-2014 budget at the National Assembly this afternoon and announced that the government will meet the deficit target of \$1.5 billion for 2012-2013 by cancelling the refurbishment of the Gentilly-2 nuclear power plant. He further stated that the budget will be balanced in 2013-2014 and will stay balanced in subsequent years.

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

### Individuals

#### ELIMINATION OF THE FLAT HEALTH TAX

The current health contribution of \$200 will be replaced by a new contribution that is more in line with each person's ability to participate in the funding of health care.

#### New health tax contribution

As of the 2013 taxation year, the current health contribution will be replaced by a progressive health contribution based on net individual income.

- No health contribution will be applied to individual income of \$18 000 or less. The contribution will gradually reach \$100 for income between \$18 000 and \$20 000.
- It will be \$100 for all taxpayers with income of \$20 000 to \$40 000, and will gradually reach \$200 for those whose income is between \$40 000 and \$42 000.
- It will be maintained at \$200 for taxpayers with income of \$42 000 to \$130 000.
- It will rise gradually from \$200 to \$1 000 for taxpayers with income of \$130 000 to \$150 000, and will reach \$1 000 for taxpayers whose income is \$150 000 or more.

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### Corporations

#### TEN-YEAR TAX HOLIDAY FOR LARGE INVESTMENT PROJECTS

The tax holiday for investments will apply to businesses with new projects of \$300 million or more that are approved within the next three years.

Furthermore, the projects must be in strategic activity sectors—the manufacturing sector, including the mineral and wood processing sectors, value-added distribution centres, and data processing and hosting.

Under the tax holiday, businesses will have, for ten years, a holiday from corporate income tax and from the contribution to the Health Services Fund with respect to their investment projects.

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As of 3 a.m. tomorrow, a tax increase of 3¢ for a bottle of beer and 17¢ for a bottle of wine will be implemented.

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### **EXTENSION AND IMPROVEMENT UNTIL 2017 OF THE TAX CREDIT FOR INVESTMENTS**

The tax credit for investments relating to manufacturing and processing equipment was implemented in Budget 2008-2009. It is designed to foster the acquisition of new manufacturing and processing equipment used in the manufacturing sector.

This measure is due to expire on December 31, 2015. To enable businesses to reach an investment decision quickly, the application period of tax credit for investments relating to manufacturing and processing equipment is being extended for two years, i.e. until December 31, 2017.

The rates of the tax credit for investments will also be increased for businesses in the resource regions located in intermediate regions.

Accordingly, the 20% and 30% rates that apply in the intermediate regions will be raised to 25% and 35% respectively.

### **ADDITIONAL EFFORTS TO FIGHT TAX EVASION**

The government wants to make every effort necessary to collect the amounts owed to it, hence its intention to step up its efforts to fight tax evasion.

Accordingly, the government is asking Revenu Québec to recover \$80 million more in 2013-2014 and \$90 million more in 2014-2015.

These additional targets are based on the implementation of four new initiatives to:

- make detection and auditing of non-compliance with the tax laws more effective;
- expand the use of sales recording modules to activity sectors other than the restaurant industry;
- require certain trusts to file a return;
- require employment agencies to obtain a certificate from Revenu Québec.

### **MAXIMUM AMOUNT OF THE TAX CREDIT FOR EXPERIENCED WORKERS MAINTAINED AT \$3 000**

Budget 2011-2012 stipulated the gradual implementation of a tax credit for experienced workers beginning January 1, 2012 to encourage more of these workers to hold a job.

Currently, the tax credit eliminates Québec tax for maximum earned income of \$3 000. The maximum amount of earned income was to have risen gradually to reach \$10 000 as of 2016.

As of January 1, 2013, the maximum earned income threshold applicable to the tax credit for experienced workers will be maintained, for an indefinite period, at the 2012 level of \$3 000.

### **DEFERRAL OF THE PAYROLL TAX REBATE TO FOSTER EMPLOYMENT FOR WORKERS AGE 65 OR OVER**

Budget 2012-2013 stipulated the implementation, as of January 1, 2013, of a reduction in contributions to the Health Services Fund for employers employing workers age 65 or over.

More specifically, this measure must consist of a non-refundable credit for contributions to the Health Services Fund in relation to wages paid to a worker age 65 or over.

- The credit of 10% must apply to wages paid and target private-sector employers.
- The credit must apply to the wages in excess of \$5 000 paid to an experienced worker. The maximum credit per experienced worker must be \$400 in 2013, rising gradually to \$1 000 in 2016.

The government is deferring, for an indefinite period, the entry into force of the reduction in contributions to the Health Services Fund for employers employing workers age 65 or over.

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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.**

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## TAXATION OF ALL TAX CREDITS FOR BUSINESSES

In general, the various forms of government assistance businesses receive are considered taxable income in Québec. However, Québec's tax legislation allows an exception regarding seven refundable tax credits:

- the four tax credits relating to research and development;
- the tax credit for on-the-job training periods;
- the tax credit for design;
- the tax credit for the construction or conversion of vessels.

The government is making all tax credits intended for businesses taxable.

This measure will apply to a refundable tax credit that a taxpayer receives after the day of Budget 2013-2014 and that relates to an eligible expenditure it incurs for a taxation year beginning after that day.

### INCREASE IN THE CONTRIBUTION BY FINANCIAL INSTITUTIONS

As part of Budget 2010-2011, a temporary additional effort was sought from financial institutions to contribute to offsetting the deficit. This additional contribution was scheduled to end on March 31, 2014.

The government is announcing that this temporary additional contribution by financial institutions will be increased and extended.

The contribution will take effect on January 1, 2013 and apply until March 31, 2019.

The rates of the temporary additional contribution by financial institutions will be:

- 2.80% on amounts paid as wages by banks, loan corporations, trust corporations and corporations trading in securities;
- 2.20% on amounts paid as wages by savings and credit unions;
- 0.90% on amounts paid as wages by other financial institutions.
- 0.30% on insurance premiums and amounts established regarding insurance funds.

## Individuals

(Continued from page 1)

### Tax rate increase from 24% to 25.75% on taxable income over \$100 000

To finance the tax relief granted to middle-class households through the new progressive health contribution, the tax rate applicable to taxable income over \$100 000 will be raised to 25.75% as of the 2013 taxation year.

This new level will bring the maximum combined personal income tax rate to 49.97%.

As of January 1, 2013, employers will deduct at source the new progressive health contribution and the tax increase for high-income taxpayers.

### REFUNDABLE TAX CREDIT FOR PHYSICAL, ARTISTIC AND CULTURAL ACTIVITIES FOR YOUNG PEOPLE AGE 5 TO 16

To encourage youth participation in sports, artistic and cultural activities, the government will introduce, as of 2013, a refundable tax credit for physical, artistic and cultural activities for children and young people aged 5 to 16 for families earning \$130 000 or less. The tax credit will correspond to 20% of eligible expenses, to a maximum of \$500 per child, for a maximum annual tax credit of \$100 per child.

As a rule, to be eligible for the tax credit, an activity must be:

- ongoing (a duration of eight or more consecutive weeks, at a minimum of once a week or, in the case of children's camps, five consecutive days with more than 50% of the time devoted to physical, artistic or cultural activities);
- supervised;
- appropriate for children.

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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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A program of physical activities must ensure that substantially all activities contribute to cardiorespiratory endurance, and to one or more of the following objectives: muscle strength, muscle endurance, flexibility or balance.

An artistic or cultural activity must contribute to fostering self-esteem, the desire to work hard, the development of creative skills or the acquisition of expertise in an artistic or cultural activity. In addition, the activity must help children develop and use particular intellectual skills, pay considerable attention to natural environments or develop interpersonal skills

### 28 000 NEW SUBSIDIZED DAYCARE SPACES

On November 12, 2012, the government announced the creation of 28 000 new subsidized daycare spaces.

Thus, in addition to the 13 000 spaces already planned in 2011 that have not yet been attributed, 15 000 new spaces will be added:

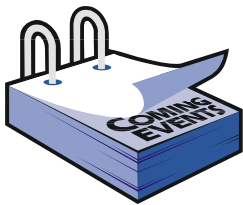
- 3 000 spaces in 2014-2015;
- 4 500 spaces in 2015-2016;
- 7 500 spaces in 2016-2017.

As of midnight tonight, the price of a carton of 200 cigarettes will be raised by \$4, for an increase of 2¢ per cigarette.

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### ALERT DATES

December 15, 2012	Final installment due for individuals required to make income tax installments.
February 28, 2013	Deadline for filing 2012 remuneration slips to employees (T4/R1) and independent sales representatives (T4A/R1), slips for payments of dividends and interest (T5/R3); including related summaries to the respective governments.
March 1, 2013	Deadline for 2012 contributions to an RRSP.
March 15, 2013	First personal income tax installments for 2013 are due.
March 31, 2013	Deadline for filing trust income tax returns for trusts with a December 31, 2012 year end. Filing date for T-5013 of partnerships.

## **ABOUT LEVI & SINCLAIR**

**LEVI & SINCLAIR** is a firm of chartered professional 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 Professional 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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