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# tax & business Alert

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## BUDGET HIGHLIGHTS: SPENDING MANAGEMENT

- Elimination of Small Business Deduction for some companies
- Increased Day-care fees
- Tax Relief for Business Transfers between Related Persons
- Introduction of a Tax Shield

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## QUEBEC BUDGET 2015-2016



The Québec Finance Minister, Carlos J. Leitão, presented Quebec's 2015-2016 budget at the National Assembly this afternoon and announced that the government will balance the budget in 2015-2016.

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

### Individuals

#### GRADUAL ELIMINATION OF THE HEALTH CONTRIBUTION

In Budget 2015-2016, the government is announcing a three-year phase-out of the health contribution which is as high as \$1,000 per high income tax payer currently.

As of 2017, all taxpayers whose net income:

- Does not exceed \$42,235 will be exempted from paying a health contribution.
- Is greater than \$42,235 and does not exceed \$137,250 will see their maximum contribution reduced by \$200, to \$125 in 2017 and to \$80 in 2018.
- Taxpayers whose net income is over \$137,250 will see their maximum contribution reduced by \$1,000, to \$800 in 2017 and \$600 in 2018.

As of the 2019 tax year, the health contribution will be abolished.

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### Corporations

#### GRADUAL REDUCTION OF THE HEALTH SERVICES FUND CONTRIBUTION

Budget 2015-2016 provides for a gradual reduction in the HSF contribution rate as of January 1, 2017 for all SMBs in the service and construction sectors with a payroll of less than \$5 million.

SMBs with a total payroll of \$1 million or less will see their contribution rate decrease to 2.55% on January 1, 2017; 2.40% on January 1, 2018; and 2.25% on January 1, 2019.

When fully implemented, SMBs with a payroll greater than \$1 million, but less than \$5 million, will be subject to a contribution rate that increases linearly from 2.25% to 4.26%.

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#### GRADUAL REDUCTION OF THE GENERAL CORPORATE TAX RATE FROM 11.9% TO 11.5%

As of January 1, 2017, Budget 2015-2016 proposes that the general corporate tax rate will be reduced by 0.1 percentage point annually until January 1, 2020, when it reaches 11.5%.

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## Individuals

### DAILY DAYCARE COSTS

Budget 2015-2016 proposes that changes in childcare rates according to net family income will come into force on April 1, 2015.

The \$7.30 per day rate for families with incomes under \$50,000 will remain unchanged.

The rate will rise to \$8 per day on incomes of \$50 000 or more. On incomes over \$75,000, the daily rate will gradually increase to reach \$20.00 per day on an income of roughly \$155,000.

The basic \$7.30 rate will be payable directly to the subsidized childcare service and the adjustment according to family income will be paid when income tax returns are filed and through deductions at source on wages.

For example, a couple with equal earned incomes totaling \$100,000 will pay \$11.41 per day for childcare. They will pay \$7.30 per day to the daycare centre and the additional contribution of \$4.11 when they file their income tax return.

### NEW ASSISTANCE PROGRAM FOR SENIORS FOR THE PAYMENT OF MUNICIPAL TAXES

Budget 2015-2016 includes the introduction, on January 1, 2016, of a new assistance program to help seniors pay their municipal taxes.

The program targets people 65 and over who have owned their home for at least 15 years and whose net family income does not exceed \$50 000. The assistance program for seniors' municipal taxes only applies to the municipal taxes levied on a principal residence.

Assistance will be granted to homeowners subject to an increase in the property value of their home, due to the filing of a new property assessment roll, that is more than 7.5% higher than the average increase for the municipality as a whole.

Homeowners who meet the eligibility conditions will benefit from the program for as long as they continue to own and live in their home. Furthermore, the amount of financial assistance to which they are entitled cannot be less than the amount received the previous year.

### ENHANCEMENT OF THE WORK INCENTIVE FOR EXPERIENCED WORKERS

Budget 2015-2016 includes two tax measures for seniors:

- the gradual improvement over three years of the tax credit for experienced workers;
- the gradual increase from 65 to 70 of the eligibility age for the tax credit with respect to age in order to align tax assistance with the work incentive and account for new labour market realities.

Therefore, the amounts made available through the revised tax credit with respect to age will be entirely reallocated to funding the incentive-to-work measure in favour of experienced workers aged 63 and over.

To avoid penalizing those tax payers who have already retired, the increase to the tax credit eligibility age will be deferred by one year annually. No individual who currently receives the tax credit will lose it.

### Gradual improvement of the tax credit for experienced workers

The tax credit for experienced workers will be improved gradually over a period of three years, beginning January 1, 2016. The eligibility for this tax credit will be extended to workers aged 63 and over in order to bring the tax assistance eligibility age closer to the actual age at which workers intend to retire. The tax credit for experienced workers will be improved and adjusted based on the age of the worker. Eventually, the excess earned income eligible for the tax credit will be:

- \$6 000 for workers aged 63;
- \$8 000 for workers aged 64;
- \$10 000 for workers aged 65 and over.

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A new tax benefit of up to \$902 and \$1,203 will be granted to workers aged 63 and 64, respectively. Workers aged 65 and over will be able to claim greater tax assistance, up to \$1,504 per year, which represents an increase of \$902 compared with the current tax credit.

The maximum value of the tax credit will be reduced by 5% for each additional dollar of earned income that exceeds the reduction threshold applicable to certain non-refundable tax credits. In 2018, experienced workers will benefit from tax assistance for earned income up to \$65,150.

Workers aged 65 and over who may currently be benefiting from the tax credit for experienced workers will benefit from disposable income loss protection after this modification. They will receive assistance equivalent to at least the existing tax credit.

#### **Gradual Increase in Eligibility Age of the Tax Credit with Respect to Age**

The age of eligibility will be increased by one year every year starting in 2016, reaching age 70 in 2020. This increase will allow existing beneficiaries to continue to benefit from the tax credit after it is modified. Over time, the eligibility age of the tax credit with respect to age will be harmonized to that of the refundable tax credit for home maintenance of seniors. This modification will take place without anyone losing the tax assistance to which they are already entitled.

## **Corporations**

### **INCOME TAX RATE FOR SMALL AND MEDIUM SIZE BUSINESSES (SMB) IN THE PRIMARY SECTOR REDUCED FROM 8% TO 4%**

Effective January 1, 2017, Budget 2015-2016 provides for a reduction from 8% to 4% in the income tax rate for primary sector SMBs. SMBs that will benefit from this reduced tax rate will be those that are currently eligible for the reduced tax rate for SMBs and operate mainly in the agricultural, forestry, mining or fishing sectors.

### **GENERAL REDUCTION OF THE TAX RATE FROM 8% TO 4% FOR MANUFACTURING SMEs**

The tax rate on the income of manufacturing SMEs will be reduced by two percentage points, i.e. to 6%, on the day following the day of the 2014-2015 Budget Speech and will be reduced by two more percentage points as of April 1, 2015, to 4%. Eligible SMEs will have to meet the same criteria as SMEs currently eligible for the reduced rate for SMEs, and the majority of their activities must be related to manufacturing and processing.

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.

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### SMALL BUSINESS DEDUCTION

Budget 2015-2016 provides that starting January 1, 2017, construction and service sector businesses with three employees or less will no longer be eligible for the SBD.

For targeted companies, all taxable income will now be taxed at the general corporate tax rate, which is currently 11.9%, rather than 8% on the first \$500,000 of revenue and 11.9% on the remainder.

### TAX CREDIT FOR THE DEVELOPMENT OF E-BUSINESS

Budget 2015-2016 provides for the following changes with respect to the tax credit for the development of e-business:

- a 6 percentage points non-refundable increase in the tax credit and, where applicable, a \$25,000 cap on tax assistance per job;
- the exclusion of payroll costs for corporate contracts with Québec government departments, agencies and corporations;
- cancellation of the tax credit deadline.

With this increase, a company that declares sufficient taxable income could benefit from a tax credit of 30%, i.e., 24% in a refundable tax credit and 6% in a non-refundable tax credit.

### TAX RELIEF FOR BUSINESS TRANSFERS BETWEEN RELATED PERSONS IN THE PRIMARY AND MANUFACTURING SECTORS

Currently, taxpayers are eligible for advantageous tax treatment on capital gains realized from the sale of shares of an eligible corporation:

- a cumulative lifetime capital gains exemption of up to \$813,600 for the sale of qualifying small business shares or \$1 million for the sale of a farm or fishing business;
- taxation on 50% of the value of the capital gains.

In the case of business transfers between related persons, however, the legislation includes an integrity rule that prevents the sale to a family member solely to take advantage of beneficial tax treatment on the capital gains.

Budget 2015-2016, proposes to make adjustments to grant tax relief for legitimate business transfers between family members, similar to that offered for other types of business transfer.

The taxpayers eligible for tax relief will have to be owners of a business that operates mainly in the primary and manufacturing sectors. With regard to eligibility for this tax relief, the government will continue to work in the coming year to identify eligibility criteria that will make it possible to restrict the relief solely to legitimate business transfers. These criteria will be clarified by the time Budget 2016-2017 is unveiled.

The tax relief will apply to transfers that take place starting January 1, 2017.

### TAX CREDITS FOR UNION, PROFESSIONAL, OR OTHER DUES

An individual who pays eligible dues or an eligible contribution to a recognized professional association, a union or a similar group, depending on whether the individual is an employee or a self-employed worker, may generally claim a non-refundable tax credit equal to 20% of the total of the amounts thus paid that are related to, as applicable, the office or employment held by the individual or the business carried on by the individual.

Budget 2015-2016 proposes that the rate at which eligible dues or contributions are converted to a tax credit will be reduced from 20% to 10% as of the 2015 taxation year.

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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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## Introduction of a Tax Shield

Because the prospect of losing existing tax assistance once income exceeds a certain threshold can diminish an individual's motivation to work more. For this reason, Budget 2015-2016 proposes to introduce a tax shield on January 1, 2016. When work income increases, the tax shield will offset the loss of socio-fiscal transfers that serve specifically as a work incentive, namely, the work premium and the tax credit for childcare expenses.

### ELIGIBILITY

Beginning in 2016, households may request a tax shield benefit on their tax returns if they meet the following criteria:

- their work income increased from the previous year;
- their socio-fiscal transfers associated with the work premium and tax credit for childcare expenses are reduced due to the increase in their work income.

### DETERMINING THE TAX SHIELD BENEFIT

To determine the value of the tax shield benefit, households may deduct from their net family income an amount equal to 75% of the following, whichever is lower:

- the increase in work income;
- the increase in household net income;
- a maximum of \$2 500 for each spouse. Therefore, if the work income of each spouse increases by \$2 500 or more, the maximum for the couple will be \$5 000.

Reducing the net family income will result in a smaller reduction in socio-fiscal transfers. As such, the eligible household will receive tax assistance allowing it to recover up to 75% of the transfers relating to the work premium and the tax credit for childcare expenses.

### FEDERAL 2015 AUTOMOBILE DEDUCTION LIMITS AND EXPENSE BENEFIT RATES FOR BUSINESS

- The limit on the deduction of tax-exempt allowances paid by employers to employees that use their personal vehicle for business purposes for 2015 will be increased by 1 cent to 55 cents per kilometre for the first 5,000 kilometres driven and to 49 cents for each additional kilometre.
- The ceiling on the capital cost of passenger vehicles for capital cost allowance (CCA) purposes will remain at \$30,000 (plus applicable federal and provincial sales taxes) for purchases after 2014.
- The maximum allowable interest deduction for amounts borrowed to purchase an automobile will remain at \$300 per month for loans related to vehicles acquired after 2014.
- The limit on deductible leasing costs will remain at \$800 per month (plus applicable federal and provincial sales taxes) for leases entered into after 2014. This limit is one of two restrictions on the deduction of automobile lease payments. A separate restriction prorates deductible lease costs where the value of the vehicle exceeds the capital cost ceiling.
- The general prescribed rate used to determine the taxable benefit relating to the personal portion of automobile operating expenses paid by employers will remain at 27 cents per kilometre for 2015. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate will remain at 24 cents per kilometre.

## Recent Federal Tax Measures Affecting Families

### FAMILY TAX CUT

The Family Tax Cut, a federal tax credit that will allow a higher-income spouse to transfer up to \$50,000 of taxable income to a spouse in a lower tax bracket. The credit will provide tax relief – capped at \$2,000 – for couples with children under the age of 18, effective for the 2014 tax year. Families can claim the Family Tax Cut in the spring of 2015 when they file their 2014 tax returns.

### UNIVERSAL CHILD CARE BENEFIT (UCCB)

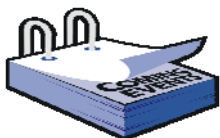
As of January 1, 2015, parents will receive a benefit of \$160 per month for each child under the age of six – up from \$100 per month. In a year, parents will receive up to \$1,920 per child. As of January 1, 2015, under the expanded UCCB, parents will receive a benefit of \$60 per month for children aged six through 17. In a year, parents will receive up to \$720 per child.

Families will begin to receive payments under the enhanced UCCB in July 2015. The July UCCB payment will include up to six months of benefits to cover the period from January through June 2015. The enhanced UCCB will replace the existing Child Tax Credit for the 2015 and subsequent taxation years.

### CHILDREN'S FITNESS TAX CREDIT

The maximum amount of expenses that may be claimed under the credit will be doubled from its current limit to \$1,000 for the 2014 tax year and subsequent tax years, and the credit will be made refundable effective for the 2015 and subsequent tax years.

Families will be able to take advantage of the new \$1,000 maximum limit in the spring of 2015 when they file their tax returns for 2014.



### ALERT DATES

April 30, 2015	Due date for personal income tax returns if you are not eligible to file by June 15.
June 15, 2015	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, 2015	Third installment due for individuals required to make income tax installments.
December 15, 2015	Final installment due for individuals required to make income tax installments.

# The Quebec Voluntary Retirement Savings Plan (VRSP)

Quebec 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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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.

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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.

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**LEVI & LEVI'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.

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- **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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