

March 17, 2016

## BUDGET

### HIGHLIGHTS:

- Reduction of the Health Care Contribution for Individuals & Companies
- Introduction of new renovation tax credit

### INSIDE THIS ISSUE:

Reduced Daycare Costs	2
Expanded Donation Tax Credits	2
Enhanced Work Premiums	2
Tax Shield Enhancement	3
New RénoVert Tax Credits	3
Innovative Companies Deduction (ICD)	3
Alert Dates	4

# tax & business Alert

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## QUEBEC BUDGET 2016-2017



The Québec Finance Minister, Carlos J. Leitão, presented Quebec's 2016-2017 budget at the National Assembly this afternoon. Mr. Leitão has stated that the Budget for 2015-2016 will be balanced and proposes to keep it balanced thereafter.

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

### Individuals

#### REDUCTION OF THE HEALTH CONTRIBUTION

Budget 2016-2017 announces an immediate reduction of the health contribution and complete elimination starting in 2018.

As of 2016, the maximum amount for the first two levels of the health contribution will be reduced from:

- \$100 to \$50 for the first level, where incomes are \$41,265 or less;
- \$200 to \$175 for the second level, where incomes range from \$41,265 to \$134,095.

The health contribution will be eliminated in 2017 for low-income taxpayers. In addition, middle-class taxpayers in the second level will benefit from a further reduction of \$55 in the maximum amount. The health contribution for this level that was to decrease from \$200 to \$125 will now decrease from \$175 to \$70.

In addition, the taxpayers paying the maximum health contribution will benefit from a reduction of the maximum amount at the last level which will decrease from \$1,000 to \$800 in 2017.

### Corporations

#### ADDITIONAL REDUCTION IN THE HEALTH SERVICES FUND CONTRIBUTIONS

Economic Plan 2016-2017 provides for an additional reduction in the HSF contribution for all Quebec SMB starting on January 1, 2017.

The rate applicable to businesses with a payroll of \$1 million or less will gradually be reduced by 2021, from:

- 1.6% to 1.45% for the primary and manufacturing sectors;
- 2.7% to 2.0% for the service and construction sectors.

#### SMALL BUSINESS DEDUCTION

Budget 2015-2016 introduced an adjustment to the small business deduction (SBD) that was intended to ensure that this tax measure achieved its objective.

To better reflect the varied situations of SMBs, Budget 2016-2017 makes the SBD eligibility criteria more flexible. Henceforth, the criteria will involve the number of hours worked (5,500 per year) rather than the number of employees (more than 3 full-time employees).

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(Continued from page 1)

### 50% REDUCTION IN THE ADDITIONAL CONTRIBUTION FOR THE CHILDCARE FOR THE SECOND CHILD

Since April 22, 2015, an additional contribution for the care of children in subsidized childcare is applicable based on family income. This contribution is not required for the third and subsequent children who attend a subsidized childcare service.

The government announces a 50% reduction in the additional contribution for the second child in subsidized childcare. This reduction is retroactive and therefore applies for 2015.

Parents whose 2015 tax returns is processed before March 17, 2016 will be reimbursed by Revenu Quebec. For other parents, Revenu Quebec will reduce the additional contribution when processing their tax return and will inform them in the notice of assessment.

Childcare expenses paid in Quebec are eligible for the federal deduction for childcare expenses. Since Revenu Quebec will refund a portion of childcare costs after production of the federal income tax return, parents who have benefited from the federal deduction for childcare with regard to the additional contribution could have to contribute again for the 2015 tax year by the Canada Revenue Agency.

### EXPANSION OF THE TAX CREDIT FOR DONATIONS

Budget 2016-2017 provides for two modifications to the tax credit for donations, namely:

- An increase in the tax credit rate from 24% to 25.75% for donations greater than \$200, when the donor's taxable income is greater than the 4<sup>th</sup> income threshold in the personal income tax table;
- Elimination of the donation limit eligible for the tax credit.

These modifications aim to harmonize the tax treatment of donations in Quebec with the federal government's, where the charitable donations tax credit was revised to allow high-income donors to request a tax credit of 33% on the portion of their donations made with income subject to the new marginal tax rate of 33%.

Therefore, the tax credit for donations will correspond to the total of the following amounts:

- 20% for the first \$200 in total donations by an individual;
- 25.75% of the smaller of the following amounts:
  - \* The individual's total donations for the year in excess of \$200,
  - The individuals' taxable income over the 4<sup>th</sup> income threshold in the tax table, which is \$105,060 for the 2017 tax year;

- 24% of the individual's total donations for the year greater than \$200 that are not eligible for the 25.75% rate.

Generally speaking, the donation amounts eligible for the tax credit for donations are limited to 75% of the donor's net income during the year for which the tax credit is requested. The amounts in excess of this limit can be claimed over the following five years. Considering the small number of individuals affected by this limit, and in order to streamline the personal tax system, Budget 2016-2017 announces the elimination of the limit on donations eligible for the tax credit for donations as of the 2016 tax year.

### ENHANCEMENT OF THE WORK PREMIUMS

Quebec's tax system provides work premiums to low-income workers. These premiums are aimed at enhancing the work effort and encouraging people to get off last-resort financial assistance and join the labour market.

The general and adapted work premiums are designed to have the maximum allowable amounts reached at an income level at which a household would no longer be entitled to last-resort financial assistance. To better target low-income workers, the premiums are then reduced.

The work premiums can benefit households both with and without children. However, the Quebec tax system offers higher work income gross-up rates to households with children than it does to childless households.

To bolster the incentive to join the labour market among households without children, Budget 2016-2017 provides for an increase to the general and adapted work premiums for these households.

As of 2016, the gross-up rate for households without children will go:

- From 7% to 9% for the general work premium;
- From 9% to 11% for the adapted work premium.

The increase in the work premiums is intended to help households without children as they have lower gross-up rates than those with children.

With the enhancement, the maximum amount for the general work premium for single individuals will go from \$564.48 to \$725.76, an increase of \$161.28. For couples without children, the maximum will go from \$881.30 to \$1,133.10, an increase of \$251.80.

With the enhancement, single individuals with a severely limited capacity for employment will see the maximum amount of their adapted work premium go from \$1,094.94 to \$1,338.26, an increase of \$243.32. For couples without children, the maximum amount for the adapted work premium will go from \$1,641.96 to \$2,006.84, an increase of \$364.88.

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(Continued from page 2)

### TAX SHIELD ENHANCEMENT

In Budget 2015-2016, the government announced the implementation of a tax shield on January 1, 2016 (see Levi & Levi's 2015-2016 Quebec Budget Bulletin for details). This measure was designed to protect workers whose income has increased through an additional work effort by limited the loss of certain socio-fiscal transfers.

To make the measure more attractive as well as accessible to more low- and average-income workers, starting in the 2016 taxation year, Budget 2016-2017 provides for an increase of the annual eligible maximum of \$2,500 per worker by \$500 (\$1,000 per couple). For each worker, the annual eligible maximum will thus go from \$2,500 to \$3,000, for a maximum of \$6,000 per couple.

### Promote the Labour Market Participation of Experience Workers

To attract and retain more experienced workers on the labour market, the government introduced in Budget 2011-2012 the implementation of a tax credit for experienced workers, effective in 2012.

Starting in 2018, workers aged 62 will be eligible for the tax credit for experienced workers, thus benefiting from tax relief on excess earnings of \$4,000 per year.

### The Creation of RénoVert

Budget 2016-2017 calls for the introduction of RénoVert, a refundable tax credit designed to encourage Quebec individuals to

undertake environmentally friendly renovation work carried out by recognized contractors.

The tax credit will apply for one year starting the day after the tabling of Budget 2016-2017, and will end on March 31 2017.

The RénoVert refundable tax credit will equal 20% of eligible home renovation expenditures incurred by an individual in excess of \$2,500, up to a maximum of \$10,000. The maximum value of the tax credit will be reached when eligible renovation expenditures reach \$52,500 during the measure's application period.

The following work is eligible for RénoVert:

- Insulation of the roof, outside walls, foundations and exposed floors,
- Leakproofing of foundations, walls, doors and windows,
- Installation of doors and windows,
- Installation of a living roof,
- Heating,
- Air conditioning,
- Water heating,
- Ventilation,
- Work pertaining to water and soil quality.

To benefit from the tax assistance provided by the RénoVert refundable tax credit, individuals must enter into a contract with a recognized contractor to have the renovation work on their home done.

## Corporations

### FACILITATING THE INTEGRATION OF INFORMATION TECHNOLOGIES IN SMBs

To encourage SMBs in manufacturing and primary sectors to integrate high-value-added software into their business process, a 20% tax credit, to a maximum tax credit of \$50,000 per corporation, is being offered for fees incurred on contracts awarded for the integration of management software packages.

### TAX REDUCTION FOR INNOVATIVE COMPANIES

To promote the marketing and manufacturing in Quebec of innovations designed by Quebec businesses, the government is instituting an innovative companies deduction (ICD).

As of January 1, 2017, the deduction will give manufacturing firms that market a product that includes a patent a lower tax rate on the revenue attributable to that patent.

The tax rate on revenue attributable to a patent, which should have been 11.8%, will be lowered to 4.0%.

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### FEDERAL 2016 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 reduced by 1 cent to 54 cents per kilometre for the first 5,000 kilometres driven and to 48 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 2015. This ceiling restricts the cost of a vehicle on which CCA may be claimed for business purposes.
- 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 2015.
- The limit on deductible leasing costs will remain at \$800 per month (plus applicable federal and provincial sales taxes) for leases entered into after 2015. 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 be reduced by 1 cent to 26 cents per kilometre. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate will be reduced to 23 cents per kilometre.

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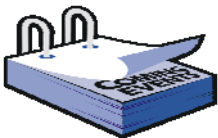
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**Readers are reminded that while budget proposals are customarily given the effect of law immediately, the amending legislation, when ultimately adopted by the National Assembly, may be altered to some degree.**

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### **ALERT DATES**

April 30, 2016	Due date for personal income tax returns if you are not eligible to file by June 15.
June 15, 2016	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, 2016	Third installment due for individuals required to make income tax installments.
December 15, 2016	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.**

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