

TAX & BUSINESS

Quebec Budget 2017

The Quebec Minister of Finance, Carlos J. Leitão, today tabled the Government of Quebec's Budget—*Building the Middle Class*—in the National Assembly. The budget is expected to show a surplus of \$2.5 billion in 2017-18, slightly increasing to \$2.8 billion by 2018-19.

The following is a summary of the tax highlights.

Small Business Deduction

In the past two years, various changes to the SBD have been announced, including a refocusing of the deduction on corporations in the primary and manufacturing sectors through the addition of qualification criteria. These changes were introduced to support, in particular, corporations that invest in their growth. They apply to taxation years beginning after December 31, 2016.

Since the announcement of these changes, various stakeholders have pointed out that the application of this criterion is complex in the case of very small corporations and that an approach based on hours paid would greatly simplify matters. Accordingly, the qualification criterion concerning the minimum number of hours worked will be replaced by a qualification criterion concerning the minimum number of hours paid. The

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RénoVert Tax Credit

Capped at \$10,000 per eligible dwelling, financial assistance under the RénoVert tax credit corresponds to 20% of the portion, in excess of \$2,500, of qualified expenditures paid by an individual to have a qualified contractor carry out recognized eco-friendly renovation work on the individual's principal place of residence or a cottage suitable for year-round occupancy that is normally occupied by the individual.

Financial assistance under this tax credit may be combined, depending on the nature of the work, with that offered for energy-efficient home renovations under the Réno-climat program administered by the Ministère de l'Énergie et des Ressources naturelles. Recognized eco-friendly renovation work for the purposes of the RénoVert tax

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Small Business Deduction (cont'd)

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thresholds of 5,000 hours and 5,500 hours will be kept for the purposes of the new qualification criterion. The special rules applicable to the qualification criterion based on hours worked will be adapted to take into account the fact that the qualification criterion will now be based on hours paid for a corporation's employees.

In certain cases, a person that is a shareholder of a corporation may be actively engaged in the corporation's activities for a taxation year without drawing any remuneration in the form of wages, although the person may receive, for example, amounts in the form of a dividend, or while receiving remuneration that is less than the value of the person's active engagement. In

these circumstances, the tax legislation will be amended for the purposes of the SBD so that a person who holds, directly or indirectly, most of the shares with full voting rights of the capital stock of a corporation is deemed to have received, from the corporation for a taxation year of the corporation, subject to the conditions listed previously, remuneration corresponding to a conversion factor of 1.1 for each hour the person worked as an active participant in the corporation's activities for the year.

The corporation must document the hours worked by a person in these circumstances. Replacement of this qualification criterion will apply as of the coming into effect of the refocusing of the SBD, that is, to taxation years beginning after December 31, 2016.

RénoVert Tax Credit Extension (cont'd)

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credit consists mostly of measures to decarbonize the residential sector.

Briefly, such work pertains to insulation, sealing, installation of ENERGY STAR qualified doors or windows, and heating, air conditioning, water heating and ventilation systems, as well as to water and soil quality, provided the work has a positive energy or environmental impact and meets the attendant standards. Renovation agreements entered into after March 31, 2017 and before April 1, 2018 may

relate to all eco-friendly renovation work currently recognized for the purposes of the RénoVert tax credit.

To take into account the fact that, in respect of a particular eligible dwelling, the RénoVert tax credit will pertain to expenditures attributable to the carrying out of eco-friendly renovation work stipulated in an agreement entered into after March 17, 2016 and before April 1, 2018, the tax legislation will be amended to specify the terms and conditions of the tax credit regarding expenditures paid after December 31, 2016.

Upgrading of Residential Waste Water Treatment Systems

To financially assist owners who must undertake work to upgrade their septic systems, a new refundable tax credit for the upgrading of residential waste water treatment systems will be introduced temporarily. Briefly, the financial assistance under this tax credit, which may reach \$5 500 per eligible dwelling, will correspond to 20% of the portion, in excess of \$2 500, of qualified expenditures paid by an individual to have recognized work carried out to upgrade the waste water treatment system of the individual's principal residence or the individual's cottage. This tax credit

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Waste Water Treatment (cont'd)

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will apply to individuals who have a qualified contractor carry out such work under a service agreement entered into after March 31, 2017 and before April 1, 2022.

To claim the tax credit for a particular taxation year, an individual must enclose, with his or her tax return for the year, an information return, using the pre-

scribed form, indicating, among other things, the description of the work carried out, its cost, the registration number assigned under the Act respecting the Québec sales tax to the contractor having carried out the work or, if there is no such number, the contractor's business number or social insurance number and, if applicable, the licence number issued to the contractor by the Régie du bâtiment du Québec.

Elimination of the 2016 Health Contribution

The year 2016 was to have been the last year for which a health contribution was payable, the government having announced in its October 2016 update of the Québec Economic Plan that the contribution would be eliminated as of 2017, to ease the tax burden on individuals.

To further reduce the tax burden on low- and middle-income individuals, the health contribution will be eliminated retroactively, as of 2016, for all adults whose income for that year does not exceed \$134,095.

Adults whose income for 2016 was greater than \$134,095, other than exempt individuals, must pay for that year a health contribution equal to the lesser of \$1,000 or 4% of the amount by

which their income for the year exceeds \$134,095.

Revenu Québec will be responsible for cancelling the health contribution amount that was payable by individuals with an income not exceeding \$134,095 for 2016, and for recalculating the amount to be paid by individuals with an income greater than \$134,095 for that year.

In addition, a new notice of assessment for 2016 will be sent, not later than June 30, 2017, to all taxpayers in respect of whom Revenu Québec has already determined, on the date of the budget speech, the amount of the health contribution payable for the year.

Sales Recording Modules for Taxis & Ride-Sharing Services

To ensure healthy competition and foster tax fairness in the remunerated passenger transportation sector, the government is announcing that a technological solution relying on the possibilities of sales recording modules will be implemented, starting at the end of 2019, in all vehicles offering this type of service, whether they are conventional taxis or vehicles using a new approach.

- Issuing a bill to customers will be mandatory.

The technological solution will make it possible, in particular, to:

- collect and record, for each driver, information on vehicle operation;
- transmit the information to Revenu Québec in real time, confidentially and securely.

Furthermore, inspection and audit activities will be conducted by Revenu Québec to validate bills issued.

General Tax Reduction

Maintenance of the Age of Eligibility for the Tax Credit with Respect to Age

The March 2015 Québec Economic Plan announced a reform of the tax assistance for seniors in order to realign the available assistance with the work incentive. The age of eligibility for the tax credit with respect to age was to be gradually raised to 70 in 2020. However, seniors questioned the measure and the government decided to maintain the age of eligibility for the tax credit at 65.

Diversion of Disagreements Away from the Court System and Access to Justice

In implementation of the action plan to follow through on the *Protecteur du citoyen's* annual active ties report 2014-2015, the government is announcing that legislative amendments to the Tax Administration Act will be proposed in order to:

- enable small businesses with ten employees or fewer to contest a decision rendered following an objection before the Small Claims Division of the Court of Québec, on the same basis as an individual;
- raise eligibility thresholds in tax cases before the Small Claims Division of the Court of Québec.

The government is easing the tax burden on all Quebecers, by granting a general tax reduction as of the 2017 taxation year.

This general tax reduction will be in the form of an increase of the basic tax credit granted to all individuals, other than trusts. The basic tax credit, which is a non-refundable tax credit, reduces or, in some cases, eliminates the income tax payable by individuals on their taxable income under the personal income tax table.

This tax relief contributes to the fairness of the tax system, by ensuring that no tax is payable by individuals before their income exceeds a certain threshold. The general tax reduction announced in this budget will raise the zero-tax threshold from \$14,544 to

\$14,890 as of the 2017 taxation year.

As a result of this higher zero-tax threshold, individuals will be able to deduct from their income tax payable an additional amount of slightly over \$55.

For the 2017 taxation year, this tax reduction will be applied when individuals file their income tax returns. As of the 2018 taxation year, it will be factored into the income tax to be deducted at source from wages and certain other amounts, such as retirement benefits. However, individuals who are required to pay their income tax in instalments may adjust, in accordance with the usual rules, any instalment payment due after March 15, 2017, in order to take into account the general tax reduction.

Simplification of the Calculation of Personal Tax Credits

Currently, the Québec tax system is the only tax system in Canada that uses the rate applicable to the second taxable income bracket of its tax table to calculate personal tax credits, instead of using, like all tax systems put in place by the other Canadian provinces and the federal government, the rate applicable to the first taxable income bracket of its tax table.

To make it easier for the public to understand the basic rules of the Québec tax system, amendments will therefore be made to the tax legislation so that personal tax credits are calculated according to

the rate applicable to the first taxable income bracket of the personal income tax table—16%—with no reduction in the value of the personal tax credits.

Thus, taking into account the general tax reduction, the amount used to calculate the basic tax credit will be raised from \$11,635 to \$14,890 as of the 2017 taxation year. In addition, each of the amounts granted for the purpose of calculating the other personal tax credits will be increased so that it represents, to the nearest upper dollar, 125% of the amount

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Introduction of an Additional Capital Cost Allowance of 35%

To support businesses and encourage them to accelerate their investments to ensure their competitiveness with a view to manufacturing innovative products and computerizing their business processes, the tax legislation and regulations will be amended to introduce an additional capital cost allowance where a business acquires manufacturing or processing equipment and computer equipment before April 1, 2019.

The tax legislation and regulations provide that a taxpayer may deduct, in calculating income for a taxation year, an amount corresponding to 55% of the acquisition cost of property that consists, in particular, in general-purpose electronic data processing equipment and systems software for that equipment, as well as an amount corresponding to 50% of the acquisi-

tion cost of property that consists in machinery and equipment acquired mainly with a view to using them for manufacturing and processing goods intended for sale or lease.

These capital cost allowances are calculated on the declining balance for each class. This property will be qualified property for the purposes of the additional capital cost allowance. Also, qualified property must be put to use within a reasonable time of its acquisition and be used by the taxpayer mainly in the course of carrying on a business during a period of 730 consecutive days following the day it is first put to use, except in the case of loss or involuntary destruction of the property—caused, among other things, by accident or theft—or in the case of a major breakdown of the property.

Such property must be used mainly in Québec throughout the 730-day period. In addition, the property must be new at the time of its acquisition and be acquired by the taxpayer after the day of the budget speech and before April 1, 2019.

The tax legislation and regulations will be amended so that a taxpayer can deduct, in calculating income for a taxation year from a business, an amount on account of additional capital cost allowance in respect of qualified property. A taxpayer will be entitled to the allowance for two taxation years: the taxation year in which the property is first put to use and the taxation year following that year. The base amount of the allowance will correspond, for a

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Wills & Living Wills

Do you have a current will?

Advice should be sought on how the family wealth should be dealt with in an unfortunate circumstance. Proper planning can minimize the tax burden on death.

Equally as important is the Living Will or Mandate of an individual who may become incapacitated without notice or warning. To minimize the strain on your family at a difficult time, a Living Will can prove to be an invaluable solution.

Do you have children who are US citizens or residents?

Personal Tax Credits (cont'd)

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that would have been applicable for the 2017 taxation year. As of the 2018 taxation year, each of the amounts granted for the purpose of calculating personal tax credits will be automatically indexed each year. Moreover, changes will be made to the terms of calculation of certain personal tax credits so that there is no tax impact further to the reduction of the applicable conversion rate from 20% to 16%.

Capital Cost Allowance of 35% (cont'd)

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taxation year, to an amount equal to 35% of the amount deducted as depreciation by the taxpayer in respect of the capital cost allowance class to which the taxpayer's qualified property belongs.

The amount that the taxpayer may deduct in calculating income for a taxation year on account of the additional capital cost allowance will correspond to the product of the base amount of the allowance for the year and the fraction of the undepreciated capital cost (UCC) of property of the capital cost allowance class attributable to the qualified property.

For the taxation year in which the qualified

property is first put to use, the fraction of UCC attributable to the qualified property will correspond to the proportion represented by the ratio between one-half of the acquisition cost of that property and the UCC used in calculating the capital cost allowance for the year.

For the next taxation year, the fraction of UCC attributable to the qualified property will correspond to the proportion represented by the ratio between the depreciation balance attributable to the qualified property and the UCC used in calculating the capital cost allowance for the year.

These changes will apply after the day of the budget speech in respect of property acquired after that date and before April 1, 2019.

Tourist Accommodation Sector

The rapid growth of the sharing economy has had notable effects on the tourist accommodation industry as numerous sharing economy platforms have been developed in recent years.

- These platforms facilitate rentals between individuals as well as exchanges and sharing of accommodation.

The Act respecting tourist accommodation establishments (ATAE) regulates this sector of activity.

- The ATAE was adopted to regulate the quality of the supply in tourist accommodation.
- This Act is aimed at informing and protecting tourists so that they will enjoy an accommodation product of a quality comparable to that existing on the international market, and ensuring fairness among all those offering tourist accommodation in Québec.

However, certain hosts using sharing economy platforms that do not comply with the legislation.

The government intends to delegate a part of the Ministère du Tourisme's inspection powers to Revenu Québec in order to ensure compliance with legislation and with the operators' tax obligations.

- Thus Revenu Québec will deploy an additional team to carry out awareness, inspection and investigation activities addressed to operators.

Legislative amendments will be proposed for this purpose.

LEVI & LEVI

is a firm of Chartered Professional Accountants that traces its origin in Montreal to 1970. 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 steadfast commitment to consistently deliver excellence. The members of our firm possess unique talents, expertise and experience, giving our client access to a knowledge base of considerable breadth and depth.

Proposals for Amendments to the Rules Concerning Summary Appeals in Tax Matters

Amendments to the Financial Administration Act concerning the rules for summary appeals in tax matters before the Small Claims Division of the Court of Québec will be proposed in order, in particular, to:

- enable small businesses with ten employees or fewer to contest an assessment of less than \$15,000;
- raise from \$4,000 to \$15,000 the maximum eligibility threshold applicable to individuals;
- provide for the obligation for Revenu Québec to transmit to taxpayers, prior to the hearing, its arguments (legislation, regulations, position defended and supporting documents);
- provide for the possibility for the court to take such case processing measures as it deems appropriate and try to conciliate between the parties during the hearing or at a case settlement conference;
- provide for the possibility of referring the parties to alternative dispute resolution methods (recourse to mediation); enable a taxpayer who is a natural person, if prevented from acting, to be represented by his or her spouse, a relative, a person connected by marriage or civil union, or a friend.

Alert Dates

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March 31, 2017	Deadline for filing 2017 Non-Resident Tax Withholding (NR4) & Statement of Trust Income Allocations & Designations (T3).
May 1, 2017	Deadline for filing personal income tax returns other than those permitted to file by June 15.
June 15, 2017	Second instalment due for individuals required to make income tax instalments. Filing date for individuals reporting business income including professional income and their spouses.
September 15, 2017	Third instalment due for individuals required to make income tax instalments.
December 15, 2017	Fourth instalment due for individuals required to make income tax instalments.

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