LEVI & LEVI

CPA CHARTERED PROFESSIONAL ACCOUNTANTS

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TAX & BUSINESS

Quebec Budget 2018-2019

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 $850 million in 2017-18, slightly decreasing to a balanced budget by 2018-19.

The following is a summary of the tax highlights.

Dividend Tax Credit

As part of Budget 2015-2016, a reduction of the general corporate tax rate was announced. The tax rate, then 11.9%, was gradually reduced and will reach 11.5% by 2020. However, no change was announced at that time to the rate of the dividend tax credit for eligible dividends.

To take into account that general tax reduction and the increase in the small business deduction (SBD) announced as part of this budget, and to ensure a better integration of the Québec corporate tax system with the personal tax system, the rates of the dividend tax credit for eligible dividends and the dividend tax credit for non-eligible dividends will be gradually reduced.

Consequently, the rate of the dividend tax credit for eligible dividends, which is currently 11.9% of the dividend gross-up amount, will be reduced to 11.86% of the gross-up

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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 Rénoclimat program administered by the Ministère de l'Énergie et des Ressources naturelles. Recognized eco-friendly renovation work for

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Dividend Tax Credit (cont'd)

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amount of a dividend received or deemed received after the day of the budget speech but before January 1, 2019. It will be reduced to 11.78% of the gross-up amount of a dividend received or deemed received in 2019, and to 11.7% of the gross-up amount of a dividend received or deemed received after December 31, 2019.

Similarly, the rate of the dividend tax credit for non-eligible dividends, which is currently 7.05% of the dividend gross-up amount, will be reduced to 6.28% of the gross-up amount of a dividend received or deemed received after the day of the budget speech but before January 1, 2019.

It will be reduced to 5.55% of the gross-up amount of a dividend received or deemed received in 2019, to 4.77% of the gross-up amount of a dividend received or deemed received in 2020, and to 4.01% of the gross-up amount of a dividend received or deemed received after December 31, 2020.

RénoVert Tax Credit Extension (cont'd)

(Continued from page 1)

the purposes of the RénoVert tax 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, 2018 and before April 1, 2019 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, 2019, the tax legislation will be amended to specify the terms and conditions of the tax credit regarding expenditures paid after December 31, 2017.

Introduction of a First-Time Home Buyer's Tax Credit

To facilitate access to home ownership by offering tax relief to persons who purchase their first principal residence or who, because of a severe disability, need to find a more accessible home, a new non-refundable first-time home buyers' tax credit will be introduced. This new tax credit will be available as of the 2018 taxation year.

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First-Time Home Buyer's (cont'd)

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A qualifying home in respect of an individual will be a housing unit located in Québec that is acquired at a particular time after December 31, 2017 by:

- the individual or the individual's spouse, where the individual intends to inhabit the home as a principal place of residence not later than one year after the particular time and it is the individual's first housing unit;

- the individual, where the individual intends that the home be inhabited by a specified disabled person, in respect of the individual, as a principal place of residence not later than one year after the particular time, and the purpose of the acquisition of the housing unit by the individual is to enable the specified disabled person to live in;

- a home that is more accessible by the specified disabled person or in which the specified disabled person is more mobile or functional, or

- an environment better suited to the specified disabled person's personal needs and care.

An individual will be considered to have acquired a qualifying home the first day on which the individual's right in the housing unit is published in the land register and the housing unit is habitable.

An individual, other than a trust, who is resident in Québec at the end of a taxation year—or, if the individual dies in the year, on the date of the individual's death—may deduct, in the calculation of the individual's tax otherwise payable for the year, where a qualifying home in respect of the individual is acquired in the year, the product obtained by multiplying $5 000 by the rate applicable to the first taxable income bracket of the personal income tax table for the year, which is currently 15%.

Thus, the maximum value of the tax credit will be $750.

If, for a taxation year, more than one individual may claim the first-time home buyers' tax credit in respect of a qualifying home, the total of the amounts that each of these individuals may claim, in the calculation of the tax otherwise payable by each of them for the year, may not exceed the amount that would be allowed if only one of them were eligible the tax credit for the year.

Failing agreement between these individuals, the Minister of Revenue will determine the amount that each of them may claim for the year.

Sales Recording Modules for Taxis & Ride-Sharing Services

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.

Voluntary Retirement Savings Plan

VRSPs are group savings plans offered by employers and administered by authorized administrators. They are governed by the Voluntary Retirement Savings Plan Act. As VRSP is a simple plan. Employers are not required to contribute, and employees are automatically enrolled when the plan is set up.

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Employers subject to the VRSP Act were required to offer a VRSP or a group retirement savings plan by:

31 December 2016, for employers with at least:

- 5 eligible employees on 31 December 2015; and
- 20 or more eligible employees on 30 June 2016;

31 December 2017, for employers with at least:

- 5 eligible employees on 31 December 2016; and
- 10 or more eligible employees on 30 June 2017.

Instead of a VRSP, employers can offer a group retirement savings plan that meets certain conditions.

The default contribution rate applied to employees who participate in VRSPs offered by their employer. The default contribution rate applies to employees who do not choose how much to contribute within the 60 days following the date on which the notice concerning their participation is sent:

- 4% of gross salary as of January 1, 2018
- 6% of gross salary as of January 1, 2019

Until a date yet to be determined by the government, an employer with at least 10 eligible employees on June 30 of a given year will have to offer a VRSP as of 31 December of that year, at the latest, if the employer had at least 5 eligible employees on 31 December of the previous year.

Gradual Reduction of the Health Services Fund Contribution Rate

To further reduce the tax burden on Small and Medium-Sized Businesses (SMBs) carrying out their activities in sectors other than the primary and manufacturing sectors, that is, SMBs in the service and construction sectors, the Health Services Fund contribution rate for specified employers in these sectors whose total payroll does not exceed $1 million will gradually decrease from 2.3% to 1.65% over a five-year period.

An additional reduction of the applicable rate for calculating their Health Services Fund contribution will be granted to these specified employers as of the day following the day of the budget speech.

Specified employers in these sectors whose total payroll is over $1 million without exceeding $5 million for 2018, or without exceeding the total payroll threshold applicable for a year subsequent to 2018, will also see a gradual reduction over five years of the applicable rate for calculating their contribution to the Health Services Fund.

A primary and manufacturing sectors corporation may also claim the additional deduction for primary and manufacturing sectors SMBs, which can reduce the corporation's tax rate on its income qualifying for the SBD by four percentage points, lowering the tax rate on such income to 4%.

Such a corporation whose proportion of primary and manufacturing sectors activities is 50% or more qualifies for the full additional deduction for primary and manufacturing sectors SMBs. The rate of the additional deduction is reduced linearly, where this proportion is between 25% and 50%, and reaches zero at 25%.

To further ease the tax burden on SMBs in sectors other than the primary and manufacturing sectors, and thus standardize the tax rates applicable to SMBs, the SBD rate will be gradually raised so that the tax rate applicable to the portion of a corporation's income qualifying for the SBD reaches 4% in 2021. Consequently, the rate of the additional deduction for primary and manufacturing sectors SMBs will be gradually reduced and the additional deduction will be eliminated in 2021.

Introduction of an Additional Capital Cost Allowance of 60%

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, 2020.

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 acquisition 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, 2020.

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 taxation year, to an amount equal to 60% of the amount deducted as depreciation by the taxpayer in calculating income for the year 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 taxation year following the taxation

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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?

Proper planning can reduce or avoid US Estate Taxes.

Capital Cost Allowance of 60% (cont'd)

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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 the depreciation balance attributable to the qualified property and the UCC used in calculating the capital cost allowance for the year. In this respect, the depreciation balance attributable to the qualified property will mean the amount by which the cost of the qualified property exceeds the part of the capital cost allowance amount that the taxpayer deducted in calculating the previous year's income and that is proportionately attributable to the qualified property. These changes will apply after the day of the budget speech in respect of property acquired after that date and before April 1, 2020.

Tax Credit for Experienced Workers

The age of eligibility for the tax credit will be lowered, as of the 2018 taxation year, to 61 years of age. For the new category of workers 61 years of age, the maximum amount of eligible work income on which the tax credit would be calculated is $3 000. Moreover, the tax legislation will be amended to provide that the maximum amount of eligible work income on which the tax credit will be calculated for experienced workers aged 62 and over will be increased by $1 000 as of the 2018 taxation year.

Enhancement of the Refundable Tax Credit for Childcare Expenses

The limit applicable to childcare expenses paid in respect of a child with a severe and prolonged impairment in mental or physical functions and the limit applicable to childcare expenses paid in respect of a child who does not have such an impairment and who is under 7 years of age at the end of a year, or who would have been had the child been living, will be $13 000 and $9 500, respectively, as of the 2018 taxation year.

The new annual limit of $13 000 applicable to expenses paid in respect of a child with a severe and prolonged impairment in mental or physical functions will enable expenses paid at a daily rate of up to $50 for full-time childcare in respect of the child to be taken into account in the calculation of the tax credit. Similarly, further to the increase in the annual limit, expenses paid for the purpose of providing full-time childcare services for a child under 7 years of age at the end of the year, at a daily rate of up to $36.50, may be fully taken into account in the calculation of the tax credit.

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 o der 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.

Measures Relating to the Quebec Sales Tax & E-Commerce

The Québec government is announcing the implementation of a new registration system under which:

- suppliers with no physical or significant presence in Québec will be required to collect and remit the QST on taxable incorporeal movable property and services they supply in Québec;
- suppliers with no physical or significant presence in Québec that are located in Canada will be required to collect and remit the QST on taxable corporeal movable property they supply in Québec.

The QST system will be changed to require suppliers with no physical or significant presence in Québec (hereinafter, "non-resident suppliers") to register with Revenu Québec, under a new specified registration system, for the purpose of collecting and remitting the QST applicable to their taxable supplies of incorporeal movable property and services made in Québec to specified Québec consumers.

Moreover, in the case of non-resident suppliers located in Canada, this registration requirement will also apply to the collection and remittance of the QST applicable to their taxable supplies of corporeal movable property made in Québec to specified Québec consumers.
For this mandatory registration measure to apply to a non-resident supplier, the value of the considerations for all taxable supplies made by the supplier in Québec to persons that may reasonably be considered consumers, as defined under the existing QST system, must exceed a threshold of $30 000.

Introduction of a Refundable Tax Credit to Encourage Qualifying Training for Workers Employed in SMB

A refundable tax credit will be introduced to encourage training for workers employed in SMBs. Briefly, this refundable tax credit will enable qualified corporations to receive tax assistance of up to $5 460 a year for each eligible employee who participates in eligible training.

This refundable tax credit will be intended for a qualified corporation or a corporation that is a member of a partnership, as applicable, that carries on an SMB whose payroll is less than $7 million.

It will apply to eligible training expenditures that the qualified corporation or the partnership, as applicable, incurs after the day of the budget speech and before January 1, 2023. Eligible training will mean training taken by an eligible employee during an eligible training period through a recognized educational institution.

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Training for Workers Employed in SMB (cont'd)

The refundable tax credit that:

- a qualified corporation may claim for a taxation year; or
- a corporation, other than an excluded corporation, that is a member of a partnership may claim, for a taxation year in which the partnership's fiscal period ends, in proportion to its share of the partnership's income or loss for the fiscal period;

will correspond to an amount equal to 30% of eligible training expenditures that the qualified corporation or the partnership, as applicable, paid to an eligible employee for the taxation year or the fiscal period, where the total payroll of the qualified corporation or the partnership for the taxation year or the fiscal period, as applicable, does not exceed $5 million.

This 30% rate will be reduced linearly, where the total payroll exceeds $5 million, reaching zero if the total payroll of the qualified corporation or the partnership for the taxation year or the fiscal period, as applicable, reaches $7 million or more. Thus, where a qualified corporation or a partnership has a total payroll of $7 million or more for a taxation year or a fiscal period, as applicable, the qualified corporation or a corporation that is a member of a partnership may not claim the tax credit for the taxation year or the fiscal period.

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Alert Dates

April 3, 2018	Deadline for filing 2018 Non-Resident Tax Withholding (NR4) & Statement of Trust Income Allocations & Designations (T3).
April 30, 2018	Deadline for filing personal income tax returns other than those permitted to file by June 15.
June 15, 2018	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 17, 2018	Third instalment due for individuals required to make income tax instalments.
December 17, 2018	Fourth instalment due for individuals

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