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Québec Budget

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Table of Contents

	Page
Introduction.....	1
1. MEASURES CONCERNING INDIVIDUALS	1
1.1 Personal income tax reduction.....	1
1.2 Improvement of the tax system pertaining to education	1
1.2.1 Introduction of a refundable tax credit to support education savings.....	1
1.2.1.1 Determination of the tax credit.....	2
1.2.1.2 Application date.....	2
1.2.2 Changes to the rules of the tax credit for minor children engaged in vocational training or post-secondary studies.....	2
1.2.3 Replacement of the tax credit for adult children who are students with a transfer mechanism for the recognized parental contribution	2
1.2.3.1 Transfer rules	2
1.2.3.2 Limit applicable to the transfer	3
1.2.4 Increase in the amount for persons living alone.....	3
1.2.5 Transfer to the parents or grandparents of the unused portion of the tax credit for tuition fees and examination fees.....	3
1.2.5.1 Transfer rules	3
1.2.5.2 Maximum amount transferable.....	3
1.3 Enhancement of the tax credit for retirement income.....	4
1.4 Introduction of a refundable tax credit for people providing respite to informal caregivers.....	4
1.4.1 Excluded person.....	4
1.4.2 Volunteer respite services.....	4
1.4.3 Informal caregiver	4
1.4.4 Care recipient.....	4
1.4.5 Information return	5
1.5 Simplification and enhancement of the refundable tax credit for child care expenses	5
1.5.1 Simplification of the application of the tax credit.....	5
2. MEASURES CONCERNING BUSINESSES	5
2.1 Extension of and improvement to the capital tax credit.....	5
2.1.1 Basic credit.....	5
2.2 Major reduction in the corporate tax rate applicable to passive income.....	5
2.3 Measures concerning scientific research and experimental development.....	6
2.3.1 Change to the requirement to carry on a business in an establishment located in Quebec	6
3. MEASURES CONCERNING CONSUMPTION TAXES (QST)	6
3.1 Rise in the maximum amount of the refund of Quebec sales tax paid on hybrid vehicle.....	6

INTRODUCTION

During the course of the tabling of the 2007-2008 budget, the Minister of Finance, Michel Audet, announced several measures pertaining to individuals and corporations that will take effect immediately as of February 20, 2007. He declared, "Success has already been achieved and this budget will lead to further progress in realizing Quebec's full potential".

The following is a summary of the budget measures that were announced.

1. MEASURES RELATING TO INDIVIDUALS

1.1 *Personal Income Tax Rate Reduction*

As of January 1, 2008, the taxable income brackets thresholds will be revised as follows.

Illustration of the thresholds and ceilings establishing the taxable income brackets of the tax table for the 2007 and 2008 taxation years.

(in dollars \$)

Marginal Rate	Taxable Income Bracket	2007	2008 Before Budget	2008 After Budget
16 %	Taxable Income equal to or less than	29,290	29,875	32,000
20 %	Taxable income over but not exceeding	29,290 58,595	29,875 59,765	32,000 64,000
24 %	Taxable Income in excess of	58,595	59,765	64,000

As of January 1, 2009, the thresholds and ceilings establishing the taxable income brackets of the tax table will be automatically indexed each year.

1.2 *Improvement of the tax system pertaining to education*

1.2.1 **Introduction of a refundable tax credit to support education savings**

Financial assistance, similar to Canada's education savings plan grant, will be paid through a refundable tax credit for the benefit of the children who will be beneficiaries of an RESP. The application rules will be similar to those governing the federal education savings plan grant.

The refundable tax credit will be granted to a trust governed by an education savings plan and will allow the plan to obtain financial assistance of up to \$3,600 per child, on a cumulative basis.

In general, the financial assistance for education savings provided by the tax credit will be equivalent to 10% of the first \$2,000 of annual contributions to an RESP for children under age 18.

However, in the case of middle-income families, the government's contribution to their savings effort will consist of financial assistance equal to 15% of the first \$500 of annual contributions to an RESP, while this rate is equal to 20% for low-income families.

1.2.1.1 Determination of the tax credit

The refundable tax credit will correspond to 50% of all amounts each of which is a Canada education savings grant.

1.2.1.2 Application Date

The refundable tax credit to support education savings will apply as of the 2007 taxation year, regarding a Canada education savings grant that is attributable to a contribution paid to an RESP after February 20, 2007 and is paid for a calendar year after 2006 under the *Canada Education Savings Act*.

1.2.2 **Changes to the rules of the tax credit for minor children engaged in vocational training or post secondary studies**

Changes relating to the child's income

The tax legislation will be amended to stipulate that, for the purposes of calculating this tax credit, the amount of recognized essential needs of \$1,860 per term (maximum of two terms) allowed, for a given taxation year, for a minor child must be reduced by an amount equal to 80% of the child's income for the year, not including scholarships, fellowships and awards he received in the course of the year and which give rise to a deduction in calculating his taxable income for the year.

The tax legislation will also be amended, in the same way, as of taxation year 2007, for the purposes of the calculation of the tax credit for other dependants.

1.2.3 **Replacement of the tax credit for adult children who are students with a transfer mechanism for the recognized parental contribution**

The tax credit for adult children who are students will be replaced, as of taxation year 2007, by a transfer mechanism for the recognized parental contribution.

1.2.3.1 Transfer rules

An eligible student, for a given taxation year, may transfer to a person who is his father or his mother, an amount relating to an unused portion of his basic tax credit for the year, provided such amount does not exceed the limit applicable to the transfer for the year.

1.2.3.2 Limit applicable to the transfer

The amount that an eligible student can transfer to his father or mother for a given taxation year must not exceed the amount corresponding to the excess, over the tax otherwise payable by the student for the given, of 20% of either of the following amounts, as the case may be:

- where the eligible student has completed, in the year, at least two recognized terms, the amount of recognized essential needs applicable for the year under the basic tax credit;
- where the eligible student has completed, in the year, only one recognized term, the amount remaining, after subtracting from the amount of recognized essential needs applicable for the year under the basic tax credit, an amount of \$1,860 for studies.

1.2.4 Increase in the amount for persons living alone

The tax legislation will be amended to stipulate that, where an individual is entitled, for a given taxation year, to an amount for a person living alone and lived, during such year, with an eligible student – for the purposes of the transfer mechanism for the recognized parental contribution – who has completed, in the year, at least one recognized term, the individual may add an amount for a single-parent family of \$1,465 to the amount for a person living alone if, at the end of the year or on the date of his death, the individual had no child regarding whom he was entitled to a refundable tax credit for child assistance for the last month of the year.

1.2.5 Transfer to the parents or grandparents of the unused portion of the tax credit for tuition fees and examination fees

The portion of the tax credit for tuition fees and examination fees that a student does not use to reduce his tax payable may, as of taxation year 2007, be transferred to the parents or grandparents.

1.2.5.1 Transfer rules

A student may transfer a portion of his tax credit for tuition fees and examination fees to only one person, which can include his father, mother, grandfather and grandmother within the meaning of the tax legislation.

Where a student transfers to one of his ascendants an amount less than the maximum amount transferable, the non-transferred portion will be carried over for future use by the student.

1.2.5.2 Maximum amount transferable

The maximum amount transferable for a given taxation year will be equal to the excess of an amount corresponding to 20% of eligible tuition fees and examination fees paid regarding the given year over the amount of tax otherwise payable for the year by the student calculated without taking non-refundable tax credits into account, apart from those that must be applied against the tax otherwise payable for the year by the student.

1.3 *Enhancement of the tax credit for retirement income*

An individual's maximum eligible retirement income used to determine the tax credit will be raised from \$1,000 to \$1,500 as of the 2007 taxation year.

1.4 *Introduction of a refundable tax credit for people providing respite to informal caregivers*

Informal caregivers have the option of allocating every year, from a \$1,000 envelope available to them respecting each person they assist, a maximum of \$500, for the purposes of the new tax credit, to any person, other than an excluded person, who provides them with a total of at least 400 hours, e.g. 50 days, of volunteer home respite services during the year.

1.4.1 *Excluded person*

The care recipient's father, mother, child, brother or sister, and their spouse, where applicable, are considered excluded persons.

1.4.2 *Volunteer respite services*

Non-remunerated services provided by an individual at the home of a person recognized as a care recipient are considered volunteer respite services, where they consist in providing care to the recipient, performing tasks normally carried out by the caregiver with respect to the recipient, taking over certain daily tasks of the caregiver so that the latter can be with the care recipient at all times or providing any similar service that gives the caregiver a break.

1.4.3 *Informal caregiver*

"Informal caregiver" refers to a person who lives with the care recipient throughout the period during which volunteer respite services are provided by the eligible individual, and who is the care recipient's spouse or a person in respect of whom the care recipient is an eligible relative, within the meaning of that term for the purposes of the refundable tax credit for informal caregivers of persons of full age.

1.4.4 *Care recipient*

"Care recipient" refers to an individual with a long-term significant disability who has an intervention plan or individualized service plan established by a health and social services center, provided the individual:

- has a severe and prolonged impairment in mental or physical functions, where the individual is 18 or over; or
- is a person in regard to whom the supplement for handicapped children is paid, where the individual is a minor.

1.4.5 Information return

Informal caregivers who wish to allocate to an eligible individual an amount for the purposes of the new tax credit for a given year must file an information return with the Minister of Revenue no later than the last day of February of the following year. A copy of the return must be provided to the individual so that he may claim the tax credit.

1.5 *Simplification and enhancement of the refundable tax credit for child care expenses***1.5.1 Simplification of the application of the tax credit**

Qualified child care expenses for a given taxation year will no longer be limited by the individual's earned income or that of the supporting person of the child, these notions having been eliminated. In addition, qualified child care expenses will no longer have to be split, for the purpose of calculating the tax credit, between the individual and his eligible spouse for the year.

Lastly, when the individual and his eligible spouse for the year are both entitled to the tax credit, they must split it between them in accordance with existing rules.

2. MEASURES CONCERNING BUSINESSES

2.1 *Extension of and improvement to the capital tax credit***2.1.1 Basic Credit**

The rate of the capital tax credit will be raised to 10% regarding eligible investments and will be extended to December 31, 2012.

The eligible assets covered by the rise in the rate of the capital tax credit to 10% are Class 43 assets, acquired after February 20, 2007 and before January 1, 2013.

2.2 *Major reduction in the corporate tax rate applicable to passive income*

The corporate tax rate applicable to passive income will be reduced to the tax rate applicable to active business income ineligible for the small business deduction.

Tax rates applicable to passive income

(Per cent %)

	2007 until the budget	2007 after the budget	2008	2009
Tax Rates Applicable to passive income	16.25	9.9	11.4	11.9
Combined Tax Rate federal/provincial	52.04	45.69	46.07	46.57

The new rates will become effective after February 20, 2007.

2.3 *Measures concerning scientific research and experimental development*

2.3.1 *Change to the requirement to carry on a business in an establishment located in Quebec*

A further amendment will be made to the tax legislation so that R & D expenditures incurred in a fiscal year that began after April 21, 2005 by a person or partnership whose eligibility for the refundable tax credit for R & D was affected by the amendment announced in the April 21, 2005 budget, can be included in a claim for refundable tax credits for R & D, by whichever of the following two dates is later, i.e., either August 31, 2008, or the last day of a period of twelve months following the filing deadline for the taxation year in which such expenditures were incurred.

3. MEASURES CONCERNING CONSUMPTION TAXES

3.1 *Rise in the maximum amount of refund of Quebec sales tax paid on a hybrid vehicle*

The QST system will be changed to raise the maximum amount of this refund to \$2,000.

This measure will apply to a new hybrid vehicle purchased or leased for which a long-term lease has been taken out after February 20, 2007 and before January 1, 2009.

NOTICE TO USERS

This budget summary is based on documents issued by the provincial government. The legislation, when enacted, may vary from the summary described therein. Professional advice from Schwartz, Levitsky Feldman, llp. should be obtained.