

SLF

2014-2015 QUÉBEC BUDGET SUMMARY

February 20, 2014

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INTRODUCTION

Budget 2014-2015 confirms a return to fiscal balance in 2015-2016. It presents the policy directions necessary to restore fiscal balance and reduce the debt, as well as the actions that will be taken to promote job creation and economic growth in Québec.

This budget confirms the government actions announced in the November 2013 Update to attain fiscal balance in 2015-2016 and ensure Québec's economic development.

According to the Minister of Finance, the plan to restore fiscal balance is based on two major components: responsible spending control and an economic strategy that creates wealth.

Here are the highlights of the 2014-2015 budget.

MEASURES PERTAINING TO INDIVIDUALS

Higher parental contribution for childcare services

The government is announcing a gradual increase in the parental contribution from \$7 to \$9. This increase will be followed by rate indexing, as of September 2016. The parental contribution will be set as follows:

- > \$8 as of September 1, 2014;
- > \$9 as of September 1, 2015;
- > \$9.20 as of September 1, 2016.

MEASURES PERTAINING TO BUSINESSES

Measures to increase the investments of Capital régional et coopératif Desjardins in territories facing economic difficulties

Investment in territories facing economic difficulties

Recognition of RCMs outside resource regions facing economic difficulties

The *Act constituting Capital régional et coopératif Desjardins* will be amended to stipulate that an investment that is otherwise eligible made, after February 20, 2014 and before January 1, 2018, in an entity located in a regional county municipality facing economic difficulties whose name is included in the list below will be considered, for the purposes of Capital régional et coopératif Desjardins' investment requirement, as having been made in an entity located in a resource region.

List of regional county municipalities outside resource regions facing economic difficulties

Acton RCM	L'Islet RCM
Antoine-Labelle RCM	La Vallée-de-la-Gatineau RCM
Appalaches RCM	RCM
Argenteuil RCM	Matawinie RCM
Coaticook RCM	Montmagny RCM
Etchemins RCM	Papineau RCM
Granit RCM	Pontiac RCM
Haut-Saint-François RCM	Sources RCM
Haut-Saint-Laurent RCM	

Increase in the amount of investments

The *Act constituting Capital régional et coopératif Desjardins* will be amended to stipulate that an investment that includes no security bond or hypothec made by Capital régional et coopératif Desjardins, after February 20, 2014, and before January 1, 2018, in an eligible entity located in a territory identified as facing economic difficulties will, up to an amount of \$500,000, be deemed grossed up by 100% for the purposes of the investment requirement.

Territories identified as facing economic difficulties

For the purposes of the gross-up relating to an investment made in a territory identified as facing economic difficulties, the following territories will be considered as such: the territories of the Kativik Regional Government, the Eeyou Istchee James Bay Regional Government, the urban agglomeration of La Tuque, the urban agglomeration of Îles-de-la-Madeleine, the Ville de Shawinigan as well as the regional county municipalities named in the following list.

List of regional county municipalities facing economic difficulties

Abitibi-Ouest RCM	La Matanie RCM
Acton RCM	La Matapédia RCM
Antoine-Labelle RCM	La Mitis RCM
Appalaches RCM	La Vallée-de-la-Gatineau RCM
Argenteuil RCM	RCM
Avignon RCM	L'Islet RCM
Basques RCM	Maria-Chapdelaine RCM
Bonaventure RCM	Maskinongé RCM
Coaticook RCM	Matawinie RCM
Domaine-du-Roy RCM	Mékinac RCM
Etchemins RCM	Montmagny RCM
Golfe-du-Saint-Laurent RCM	Papineau RCM
Granit RCM	Pontiac RCM
Haut-Saint-François RCM	Rocher-Percé RCM
Haut-Saint-Laurent RCM	Sources RCM
Kamouraska RCM	Témiscamingue RCM
La Côte-de-Gaspé RCM	Témiscouata RCM
La Haute-Côte-Nord RCM	
La Haute-Gaspésie RCM	

Changes to government assistance for capitalization

The applicable rate for the purposes of the calculation of the tax credit for the acquisition of Capital régional et coopératif Desjardins' shares will be reduced from 50% to 45% for shares acquired after February 28, 2014. Accordingly,

the maximum amount an individual may deduct in calculating his tax will decline from \$2,500 to \$2,250.

Change to the refundable tax credit to foster the modernization of the tourism accommodation offering

This tax credit is granted to a qualified corporation that owns a hotel establishment, a tourist home, a resort, a bed and breakfast establishment or youth hostel located in Québec, outside the metropolitan Montréal and Québec City census regions, and that carries out renovation or improvement work on such an establishment before January 1, 2016.

The tax credit that a qualified corporation may receive, for a taxation year, corresponds to 25% of the amount by which the total of the qualified expenditures of the qualified corporation, for the taxation year, exceeds an annual threshold of \$50,000. The limit on qualified expenditures of a corporation, for a taxation year, is \$ 750,000.

The budget proposes to replace the annual threshold of \$50,000 with a single threshold of \$50,000.

This change will apply to a taxation year of a corporation ending after February 20, 2014.

New investment-job pricing offer

Businesses that carry out new investment projects involving additional electricity consumption will receive a reduction in their electricity rate.

The government is reviewing the terms and conditions of the pricing offer to bolster project eligibility, in the manufacturing sector in particular. Accordingly, the pricing offer:

- > will apply to new loads of 2 MW or more;
- > will consist of a reduction schedule applying to existing rates associated with the business's consumption levels;
- > will include a gradual return to the regular rate;
- > will be granted for 10 years or until the surpluses available for the investment-job pricing offer (50 TWh) are exhausted.

The new threshold will make it possible for a business to increase the production of an existing plant and benefit from the reduction on the additional electricity consumption.

The government will continue with the necessary steps to act on these orientations.

Actions to foster the growth of our most promising businesses

Québec has to increase the number of businesses that, once they have completed the early stages of their life, experience strong growth and are likely to become standard-bearers of Québec's economy.

Accordingly, 300 high-growth businesses, the gazelles, will be selected over three years, i.e. 100 per year, to accelerate their development.

For their official application, businesses will have to supply certain information to assess their financial performance, international outreach, productivity and their management team.

The call for candidates will be open from February 24 to March 28, 2014 and the businesses selected will be announced later in the spring.

The gazelles are established businesses that are already posting outstanding sales growth. They export, create wealth for Québec and will experience rapid growth over the next three years. They are typically at least three years old, have sales of at least \$2.5 million, fewer than 250 employees and are Québec-owned. They have the necessary financial capacity and determination to commit to an intensive growth strategy. Most of them are in the manufacturing sector as well as the high value-added tertiary sector.

Additional assistance to foster the seeding and start-up of businesses

Significant support for business start-ups

In the budget of February 20, 2014, the Québec government is confirming its commitment to recapitalize, working with Investissement Québec, the Anges Québec Capital fund with an additional \$25 million.

Renewal of local investment funds

Under the existing terms and conditions, Local investment funds (LIFs) will expire on December 31, 2014 and the local development centres (CLDs) will no longer be able to provide financing as of January 1, 2015.

In view of the importance of LIFs in supporting local entrepreneurship, the budget:

- > defers the repayment of LIFs for five years;
- > streamlines the terms and conditions of LIFs to support future entrepreneurs seeking to acquire businesses in all regions of Québec.

CLDs will be able to make additional annual investments of \$25 million from 2015-2016 to 2019-2020 from the existing capitalization.

OTHER MEASURES

New tax audit measures

Installation of sales recording modules in bars and resto-bars

The same measures implemented in the restaurant sector will be introduced in bars and resto-bars:

- > the requirement to give customers a bill;
- > the requirement to produce bills using a sales recording module (SRM);
- > more inspection activities;
- > a campaign to raise awareness about the importance for customers to have their bill in hand when they leave an establishment.

The SRMs will be deployed over a five-month period as of fall 2014.

As was the case when SRMs were installed in the restaurant sector, the government will bring in a subsidy program to fund the purchase of the devices.

Implementation of the attestation from Revenu Québec for employment agencies

In the budget of November 20, 2012, the government announced that it would require employment agencies to obtain an attestation from Revenu Québec, because of networks of unreported work that set themselves up as employment agencies.

The government is announcing the following terms and conditions relative to this measure:

- > the attestation from Revenu Québec will be mandatory for employment agencies' contracts of \$2,500 or more, as of fall 2014;
- > apart from the requirement to obtain and validate the attestation, client companies will

be required, as of 2015, to enter, on a regular basis, the disbursements made to employment agencies.

If any of the requirements set forth in the new rules are not met, various penalties will apply.

The application details will be specified at a later date.

The fight against tax evasion and unreported work in the construction industry

New requirements for private construction contracts

As of fall 2014, before entering into a construction contract of \$25,000 or more, a contractor holding a valid licence from the Régie du bâtiment du Québec will be required to obtain an attestation from Revenu Québec and provide it to the recognized client.

The recognized client will then be required to validate, on Revenu Québec's website, the authenticity of the attestation obtained from the contractor.

These requirements apply to all levels of subcontracting. A company can be both a recognized client and a subcontractor, and must meet the respective requirements of these statuses.

The attestation from Revenu Québec is valid for a period of 90 days as of the date on which it is issued.

At the end of the 90-day validity period, the contractor will be required to renew the attestation from Revenu Québec. A new valid attestation will then have to be provided, and so on until the end of the contract.

Further information on the implementation of this measure will be announced at a later date.

New measure against false-billing fraud

The government is announcing that, to more effectively detect companies that register for the QST for fraudulent purposes, Revenu Québec will monitor at-risk registrations more closely through:

- > an increase in the number of construction companies audited;

- > improved criteria for the selection of at-risk files;
- > the inspection and audit of certain companies to ensure they are carrying out genuine economic activities, by:
 - validating the identity of shareholders and administrators,
 - verifying that the company has the ability to carry out activities.

Further information on the implementation of this measure will be announced at a later date.

More support to develop Québec's cultural sector

To enable Québec's media and cultural industries to continue the digital shift, from the creation of works to their commercialization, the government is announcing investments of \$150 million to implement Québec's new digital culture strategy.

Recommendations of the task force on the protection of Québec businesses

The government seeks to adopt measures to attract, develop and maintain businesses in Québec.

Accordingly, retaining head offices, and especially corporations considered Québec standard-bearers, is one of its chief preoccupations.

A task force was mandated to recommend measures to better protect Québec businesses from unsolicited takeovers and measures to help retain and attract head offices to Québec (report produced in February 2014).

The government now intends to move quickly to amend the Québec *Business Corporations Act* to include defence options for corporations wishing to make use of them.

In addition, the government will bring forward the recommendations concerning the *Securities Act* to propose legislative and regulatory amendments that may be adapted to the Canadian context of harmonization.

Lastly, the government notes the other measures recommended by the Task Force:

- > amendments to share purchase plans;
- > promotion of the long-term survival of Québec corporations (taxation of capital

gains at the time of death of an owner or a key shareholder-founder of a business, transmission of the ownership of shares in a company from one generation to the next).

Harmonization with certain measures of the federal budget of February 11, 2014

Québec's tax legislation and regulations will be amended to incorporate some of the measures announced by the federal government. These changes will apply on the same dates as those for the purposes of the federal measures with which they are harmonized.

Measures relating to income tax

Measures retained

Québec's tax legislation and regulations will integrate the measures relating to:

1. the addition of certain expenses to the list of expenses eligible for the tax credit for medical expenses;
2. the introduction of a tax credit for volunteers participating in search and rescue activities, it being understood that the tax credit conversion rate will be equal to the rate applicable to the first taxable income bracket of the personal income tax table¹;
3. to the property used in the course of carrying on a farming business and a fishing business;
4. the tax deferral granted to certain farmers located in regions hit by drought, flooding or excessive moisture;
5. the inclusion of certain income attributed to a minor by a partnership or a trust for the purposes of calculating tax on split income;
6. the elimination of graduated rate taxation for certain trusts and estates;
7. the elimination of the 60-month exemption from the residency presumption rules that apply to non-resident trusts and from certain other related rules;
8. the extension from five to ten years of the deferral period of gifts of ecosensitive land made by an individual;
9. donations in the context of death;

¹ This rate is currently 16%.

10. donations of cultural property acquired under a gifting arrangement that is a tax shelter;
11. the registration of organizations or associations that receive gifts from foreign states that support terrorism;
12. the change to the anti-avoidance rule concerning captive insurance corporations;
13. the addition of new eligibility conditions to the exception relating to offshore regulated financial institutions;
14. the change to the anti-avoidance rule currently contained in the thin capitalization rules;
15. the increase in the thresholds determining how frequently employers must remit withholdings at source;
16. the changes concerning the accelerated capital cost allowance for clean energy generation equipment to include water-current energy equipment and gasification equipment.

Measures not retained

Some measures have not been retained. These measures relate to:

- > the increase in the maximum amount of expenditures eligible for the adoption expense tax credit;
- > the extension of the mineral exploration tax credit for flow-through share investors;
- > the inclusion of income paid to an amateur athlete trust for the purposes of determining the maximum amount deductible on account of registered retirement savings plans by the trust beneficiary;
- > the automatic determination of the GST/HST credit;
- > consequential amendments arising from the elimination of graduated rate taxation for certain trusts and estates;
- > the extension from 5 to 10 years of the deferral period of gifts of ecosensitive land made by a corporation;
- > the addition of a specific anti-avoidance rule concerning tax withholding on interest payments;
- > the rules on the cap applicable to transfers of pension benefits to a registered retirement savings plans where the amount of accumulated benefits has been reduced in particular because of the under-funding of the registered pension plan.

Measures relating to the GST/HST

Changes will be made to the Québec sales tax (QST) system to incorporate, with adaptations on the basis of its general principles, the federal measures relating to the GST/HST election for closely related persons and those seeking to strengthen compliance with GST/HST registration.

Moreover, it should be noted that the Ministère des Finances et de l'Économie has previously announced, in *Information Bulletin 2014-4* of February 12, 2014, that the QST system would be harmonized with measures to improve the application of the GST/HST in the health care sector.

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