2012 Quebec Budget Summary

March 20, 2012

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INTRODUCTION

"Today's budget contains no new taxes for Quebecers," stated Quebec Finance Minister Raymond Bachand today. The highlights of the Budget are set out below.

1. MEASURES PERTAINING TO INDIVIDUALS

1.1 Measures to help seniors remain in their home

1.1.1 Improvement to the refundable tax credit for home-support services for seniors

1.1.1.1 Improvement to the parameters of the calculation of the tax credit

Increase in the cap on eligible expenses

For non-dependent seniors, the cap will be raised from $15,600 to $19,500. For seniors recognized as dependent, the annual cap on eligible expenses will be raised from $21,600 to $25,500.

Gradual increase in the rate of the tax credit

The rate of the tax credit for home-support services for seniors will gradually be increased to 35%. More specifically, for each taxation year, as of the 2013 taxation year, the rate of the tax credit will be increased by 1 percentage point, until it reaches 35% in 2017.

Elimination of the income-based reduction to the tax credit for seniors recognized as dependent

These seniors will no longer be required to reduce the amount of the tax credit otherwise determined based on their family income.

Recognition of remote monitoring services and GPS tracking services

To help seniors remain in their home, the list of recognized personal support services will be changed to include person-focused remote monitoring services provided to seniors not living in private seniors' residences.

1.1.1.2 Determination of eligible expenses included in rent

The rules concerning the determination of the eligible expenses included in rent will be changed to provide that not only persons age 70 or older living in a dwelling unit in a private seniors' residence, but also those living in a private residential and long-term care centre not under agreement, must use a table for determining expenses.

In addition, seniors will, as of the 2013 taxation year, benefit from an increase to the maximum amount assigned in respect of the majority of the items in the table for determining expenses.

1.1.2 Improvement to the amount granted to the informal caregiver of an elderly spouse unable to live alone

The amount granted in respect of the refundable tax credit for informal caregivers caring for an elderly spouse will be raised to $700 ($591 in 2011) for the 2012 taxation year and will increase gradually thereafter by $75 each year, to $1,000 as of the 2016 taxation year. The $1,000 amount will be automatically indexed each year as of January 1, 2017.

1.1.3 Introduction of a refundable tax credit for costs incurred by seniors for a stay in a functional rehabilitation transition unit

The tax legislation will be amended to provide that an individual who, at the end of a given taxation year, or on the date of death if the individual died in the year, resides in Quebec and is age 70 or older is entitled, for the year, to a refundable tax credit equal to 20% of the total of the amounts each of which corresponds to the aggregate of the expenses paid in the year in respect of a stay, begun in the year or the previous year, in a functional rehabilitation transition unit, up to the portion of that aggregate that is attributable to stay of no more than 60 days.

1.1.4 Introduction of a refundable tax credit for the purchase or rental of equipment to help seniors continue living independently at home

The tax legislation will be amended to provide that an individual who, at the end of a given taxation year, or on the date of death if the individual died in the year, resides in Quebec and is age 70 or older is entitled, for the year, to a refundable tax credit equal to 20% of the portion, in excess of $500, of the aggregate of the amounts paid in the year for the purchase or rental, including installation costs, of equipment intended to be used in the individual's principal place of residence and consisting of any of the following:

— a person-focused remote monitoring device, such as an emergency call device ("panic button"), a device for remotely measuring various physiological parameters or a device for remotely supervising the taking of medication;
— a GPS device for tracking a person;
— a device designed to assist a person to get on or off a toilet or into or out of a bathtub or shower;
— a walk-in bathtub or a walk-in shower;
— a mechanized, rail-mounted chair lift designed solely to carry a person up or down a stairway;
— a hospital bed.

1.2 Measures relating to pooled retirement savings

The government is undertaking to table a bill so that the rules for the implementation of voluntary retirement savings plans (VRSPs) can enter into force on January 1, 2013. .

1.2.1 Quebec's position on the federal tax rules relating to pooled registered pension plans

Provided the federal legislative proposals concerning pooled registered pension plans are adopted, Quebec's tax legislation and regulations would be amended to incorporate some of the proposed measures. These amendments would apply on the same dates as those for the purposes of the federal measures with which they would be harmonized.

Here are the main characteristics for employers and workers:

Summary of the main characteristics of VRSPs

Main characteristics targeting employers	
Obligation to offer a VRSP	– Companies with five or more employees with at least one year of uninterrupted service and that do not already offer all their employees the possibility of contributing to a retirement savings plan through payroll deductions will be required: ▪ to choose a VRSP to offer to their employees; ▪ to enrol all their employees with at least one year of uninterrupted service in a VRSP; ▪ make source withholdings of employee contributions and remit them to the VRSP administrator.
Exemption for small businesses	– Employers with fewer than five employees with at least one year of uninterrupted service will not be required to offer a VRSP. – However, they may offer it voluntarily.
Automatic enrolment of workers	– If the employer is required to offer a VRSP, employees with at least one year of uninterrupted service will have to be enrolled automatically.
Employer contribution	– The employer will not be required to contribute. – As with registered pension plans, if the employer decides to contribute, the contributions he pays will not be subject to payroll taxes. – The employer's contributions will be deductible from its taxable income for Quebec and federal tax purposes.
Employer compliance period	– Employers will have until January 1, 2015 to comply with the obligation to offer a VRSP. – After the initial compliance period, an employer that is covered by the obligation to offer a VRSP will have one year to comply with it.
Employer oversight	– The Commission des normes du travail will be responsible for overseeing employers. It will intervene, in particular regarding complaints, to enforce the provisions of the law.

Summary of the main characteristics of VRSPs (continued)

Main characteristics targeting workers	
Contribution rate	– The default employee contribution rate will be: ▪ 2% from January 1, 2013 to December 31, 2015; ▪ 3% from January 1, 2016 to December 31, 2016; ▪ 4% as of January 1, 2017. – The participant will always be authorized to change his contribution rate and will have the option of ceasing to contribute for a certain time.
Tax treatment of contributions	– The participant's contributions will be deducted from taxable income. Contributions to a VRSP, which will be in addition to those made to an RRSP, will be subject to the same annual cap as RRSPs, i.e. a maximum of 18% of earned annual income. – The amounts accumulated will not be taxed unless they are withdrawn.
Withdrawal of accumulated amounts	– Like RRSPs, an employee's contributions may be withdrawn before retirement. – Amounts withdrawn before retirement will be subject to Quebec and federal tax. – Employer contributions may only be withdrawn as of age 55.
Withdrawing from a VRSP	– Employees who have been automatically enrolled will have 60 days after enrolment to withdraw, failing which contributions will start being deducted from their pay.
Investment choices	– The default option will be based on a "life cycle" approach in which the risk level is adjusted based on the participant's age. – There will be a maximum of five other investment options.
Possibility of optional enrolment	– Those not automatically enrolled, such as self-employed workers or individual savers, may enrol in a VRSP by contacting a plan administrator directly.

1.2.2 Reduction in payroll contributions for employers participating in the acquisition of shares of a labour fund

A change will be made to exclude from the base wages of an employee the value of the benefit from amounts paid by an employer to acquire for the benefit of such employee a share or fraction of a share issued by the Fonds de solidarité FTQ or Fondaction.

This change will apply regarding a share or fraction of a share acquired after December 31, 2012.

2. MEASURES PERTAINING TO BUSINESSES

2.1 Measures fostering economic development

2.1.1 Reduction in contributions to the Health Services Fund for employers employing workers age 65 or over

Employers may claim, as of 2013, a reduction in their contributions to the Health Services Fund for employees at least 65 years old. For each such employee, this reduction may reach $400 in 2013. The maximum amount of this deduction will be raised to $500 in 2014, to $800 in 2015 and finally $1,000 as of 2016.

2.1.2 Introduction of tax relief for public transportation organized by employers

The tax legislation will be amended to stipulate that an employer that organizes, alone or jointly with other employers, a public transportation service for employees who live outside the local municipal territory where the establishment they normally work at is located may deduct, in the calculation of its income from a business for a given taxation year, an additional amount equal to 100% of the amount otherwise deductible for the setting up and operation of such a service, if the following conditions are met:

— the transport service is provided at least five days a week, except during holidays or a slowdown in the business' activities;
— employees are transported in a vehicle with a design capacity of at least 15 people (coach, minibus or van);
— employees can get on and off the vehicle only at pre-determined places.

These changes will apply as of the 2012 taxation year.

2.1.3 Enhanced recognition of post-secondary studies for the purposes of the tax credit for new graduates working in a remote resource region

The tax legislation will be amended to increase the cumulative amount to $10,000 (previously $8,000) on account of the tax credit for new graduates working in a remote resource region.

2.1.4 Renewal of the refundable tax credit for labour training in the manufacturing, forestry and mining sectors

The tax legislation will be amended to renew the refundable tax credit for labour training in the manufacturing, forestry and mining sectors (which was to be discontinued on January 1, 2012) until December 31, 2015 under the same terms and conditions (30% of eligible training expenditures).

2.1.5 Changes to the refundable tax credit for multimedia titles (general) and the refundable tax credit for corporations specialized in the production of multimedia titles

The tax credit for multimedia titles (general) and the tax credit for specialized corporations will be changed, in particular to simplify their application. Accordingly, amendments to the tax legislation as well as to the sectoral parameters will be made in relation to the categorization of multimedia titles, the specialized corporation certificate, the rules applicable to subcontracting and eligible production work.

This change will apply after March 20, 2012 regarding a taxation year ending after that day.

2.1.6 Improvement to the tax credit for investments relating to manufacturing and processing equipment

2.1.6.1 Qualified property

The expression “qualified property”, for the purposes of the tax credit for investments, will be changed so that property acquired by a taxpayer for use exclusively in Quebec and primarily in the course of ore smelting, refining or hydrometallurgy activities, other than ore from a gold or silver mine, extracted from a mineral resource located in Canada, may be a qualified property.

To qualify, such a property must, in addition to satisfying the other conditions stipulated by the tax legislation, be acquired after March 20, 2012 and before January 1, 2018. However, it must not be:

— property acquired in accordance with a written obligation entered into no later than March 20, 2012;
— property whose construction, by the taxpayer or on his behalf, was already in progress on March 20, 2012.

2.1.7 Introduction of fiscal measures to encourage the creation of new financial services corporations

2.1.7.1 Refundable tax credit for the hiring of employees by a new financial services corporation

An eligible corporation may receive, for a taxation year, a refundable tax credit equal to 30% of the eligible salaries (maximum $100,000 annually) it incurs during the period of validity of its qualification certificate that is included in such taxation year.

<u>Application date</u>

An eligible corporation that obtains a qualification certificate (valid for 5 years), after March 20, 2012, may receive this refundable tax credit in relation to an eligible salary it incurs after such day, for an eligible employee.

2.1.7.2 Refundable tax credit relating to a new financial services corporation

An eligible corporation may receive, for a taxation year, a refundable tax credit equal to 40% of the eligible expenditures (maximum $375,000 annually) it incurs in relation to the period of validity of its qualification certificate that is included in such taxation year.

Application date

An eligible corporation that obtains a qualification certificate after March 20, 2012 may receive this refundable tax credit in relation to an eligible expenditure it incurs after that day.

2.1.7.3 Tax holiday for foreign specialist employed by a new financial services corporation

An individual who does not reside in Canada and comes to Quebec to work in certain specialized activity sectors can receive a tax holiday for a period of five years.

Thus, the amount that an individual may deduct in calculating his taxable income during this continuous period of five years will correspond to a percentage of his salary equal to 100% for the first and second years of such period, 75% for the third year, 50% for the fourth year and 25% for the fifth year.

Application date

An individual may receive this tax holiday, for a taxation year, once he commences employment with an eligible corporation, after March 20, 2012, under an employment contract entered into after that day.

2.1.8 Introduction of a refundable tax credit pertaining to the diversification of markets of Quebec manufacturing companies

An eligible corporation may, under certain conditions, receive a refundable tax credit equal to 30% of the eligible certification expenses it incurs regarding an eligible good. However, the total amount of this tax credit an eligible corporation may claim for one or more eligible goods, as the case may be, will be limited to $45,000.

2.1.8.1 Application date

An eligible corporation that obtains an eligibility certificate before January 1, 2017 and after March 20, 2012, may receive this refundable tax credit in relation to eligible certification expenses it incurs after that day, but before January 1, 2016.

2.1.9 Changes to the refundable tax credit for resources

Current rates of the refundable tax credit for resources
(per cent)

Tax credit regarding eligible expenses	Corporations not operating any mineral resource or oil or gas well (1)	Other corporations
– relating to mining resources, oil and natural gas		
▪ in the Mid-North or Far North	38.75	18.75
▪ elsewhere in Quebec	35	15
– relating to renewable energy and energy savings	35	30
– relating to other natural resources (cut stone)	15	15

(1) These corporations must not be related to a corporation that develops a mineral resource or an oil or natural gas well.

The tax credit rates available to corporations will be reduced.

Rates of the refundable tax credit for resources after reduction
(per cent)

Tax credit regarding eligible expenses	Corporations not operating any mineral resource or oil or gas well (1)	Other corporations
– relating to mining resources, oil and natural gas		
▪ in the Mid-North or Far North	28.75	13.75
▪ elsewhere in Quebec	25	10
– relating to renewable energy and energy savings	35	30
– relating to other natural resources (cut stone)	10	10

(1) These corporations must not be related to a corporation that develops a mineral resource or an oil or natural gas well.

2.1.9.1 *Increase in the tax assistance*

An eligible corporation planning to incur exploration expenses in the mining, oil or gas field may claim an increase in the tax assistance in exchange for an option to the state to acquire an equity stake in the development. This option will be managed by Ressources Québec.

The increase in the tax assistance will consist of a rise in the rate of the refundable tax credit for resources regarding eligible expenses incurred after December 31, 2013.

2.1.9.2 *Application date*

These changes will apply regarding eligible expenses incurred after December 31, 2013. Where eligible expenses incurred before January 1, 2014 are reasonably attributable to work carried out after December 31, 2013, such eligible expenses will be deemed incurred after that date.

2.2 *Measures pertaining to tourism*

2.2.1 Introduction of a refundable tax credit to foster the tourism accommodation offering

This tax credit, which may reach $175,000 per taxation year, will be granted to corporations that own a hotel establishment, a tourist home, a resort, a bed and breakfast establishment or youth hostel located in Quebec (excluding camping and outfitting establishments, among others), outside the greater Montreal and greater Quebec City regions, and that, prior to January 1, 2016, carry out renovation or improvement work on such an establishment.

2.2.1.1 *Determination of the tax credit*

The tax credit of an eligible corporation will be equal to 25% of the portion of its eligible expenditures incurred in the year to carry out eligible work that exceeds $50,000 without exceeding $750,000.

2.2.1.2 *Eligible corporation*

An eligible corporation means, for a taxation year, a corporation, other than an excluded corporation, that satisfies the following conditions:

— during the taxation year, it carries on a business in Quebec, has an establishment there and owns an eligible tourist accommodation establishment;
— for the taxation year or the taxation year preceding such taxation year, it has gross revenue of at least $100,000 and the amount of its assets shown in the financial statements is more than $400,000 for the preceding taxation year.

2.2.1.3 *Eligible work*

Execution of the eligible work must be awarded by the eligible corporation to a contractor under the terms of an agreement entered into after March 20, 2012 and before January 1, 2016.

Work consisting of repair or maintenance work on an eligible tourist accommodation establishment will not be eligible work for the purposes of the tax credit. Such will be the case, for instance, of work whose purpose is to refurbish any existing part of an eligible tourist accommodation establishment following a break or defect.

2.2.1.4 *Application date*

The refundable tax credit to foster the modernization of the tourist accommodation offering will apply regarding an eligible expenditure incurred after March 20, 2012 for eligible work done before January 1, 2016. However, work done in accordance with an obligation entered into no later than March 20, 2012 will not be considered eligible work.

2.3 *Measures pertaining to culture*

2.3.1 Recognition of new key positions for the purposes of the tax relief allowed foreign film workers

The *Act respecting the sectoral parameters of certain fiscal measures* will be amended to stipulate that the Société de développement des enterprises culturelles (SODEC) may also issue an eligibility certificate for the purposes of the deduction relating to a foreign worker holding a key position in a foreign production to an individual who works in the course of an eligible foreign production as assistant producer, assistant director, set designer, financial comptroller, accountant or assistant accountant, visual effects producer or visual effects coordinator.

2.3.2 Broadening of the enhancement applicable to certain French-language film or television productions

The sectoral parameters of the tax credit for Quebec film and television production will be changed so that feature-length, medium and short animated films of fiction are eligible for the enhancement applicable to certain French-language productions, whether or not they are intended for young people.

This change will apply regarding a film or television production for which an application for an advance ruling or, in the absence of such application, a certificate application is submitted to the SODEC after March 20, 2012.

2.3.3 Rise in the cap on the refundable tax credit for the production of performances regarding musical comedies

The tax legislation will be amended to stipulate that the refundable tax credit for the production of performances, regarding a qualified performance that is a musical comedy, may not exceed $1.25 million ($750,000 before March 20, 2012).

This amendment will apply in relation to a performance, one of whose three eligibility periods is not completed on March 20, 2102.

2.3.4 Introduction of a tax credit for the production of multimedia environments or events staged outside Quebec

A new refundable tax credit for the production of multimedia environments or events staged outside Quebec with two fields of application will be implemented on a temporary basis.

An eligible corporation may accordingly, under certain conditions, claim a refundable tax credit equal to 35% of eligible labour expenditures it incurs to carry out an eligible production. However, the labour expenditures giving rise to this tax credit may not exceed 50% of production expenses. In addition, the tax credit allowed regarding a production will be limited to $350,000.

To be entitled, for a taxation year, to the tax credit regarding an eligible production, the corporation that carries out such production must enclose with its tax return for such year a certificate issued by SODEC attesting that the production satisfies the criteria stipulated in this regard.

This measure will apply regarding an expenditure incurred after March 20, 2012 but before January 1, 2016.

2.4. Measures fostering the capitalization of businesses

2.4.1 Introduction of a refundable tax credit pertaining to the costs of issuing shares as part of an initial public offering under the stock savings plan II (SSP II)

A refundable tax credit of 30% relating to the eligible issue expenses that an eligible corporation incurs in an initial public offering (IPO) under the SSP II will be introduced.

An eligible corporation may claim this refundable tax credit for eligible issue expenses it incurs, after March 20, 2012, in relation to a public issue of eligible shares of its capital stock in an IPO under the SSP II that is covered, after such day, by a favourable advance ruling of the Minister of Revenue in accordance with the applicable SSP II rules.

For greater clarity, this refundable tax credit will be temporary since the SSP II ends December 31, 2014.

2.4.2 Measures pertaining to labour funds

2.4.2.1 Changes to certain investment requirements imposed on the Fonds de solidarité FTQ

The investment diversification requirement will be changed to stipulate that the percentage of concentration of the Fund's investments in a company may, regardless of the restriction concerning the acquisition or the holding of shares with voting rights, rise to 10% (5% before March 20, 2012) of its assets, if the company is a financial institution registered with the Autorité des marchés financiers or the Office of the Superintendent of Financial Institutions and is part of a financial group recognized by the Minister of Finance.

This change will apply regarding an investment made after March 20, 2012.

Recognition of investments made for high-value-added processing of wood

To steer forestry sector businesses towards the new niches of green construction, green energy and green chemistry, all supplied by the wood industry, an investment fund will be set up for high-value-added processing of wood.

2.4.2.2 Increase in the annual issuance limit temporarily imposed on Fondaction

To enable Fondaction to more quickly reach an optimal level of capitalization that will enable it to invest more in Quebec companies as a partner of the social economy and sustainable development, to reduce its operating costs in relation to its assets and better diversify its portfolio, the limit applicable to the capital that Fondaction may collect over its next three fiscal years by means of a 25% tax credit will be raised.

3. OTHER MEASURES

3.1 Measures pertaining to cooperatives

3.1.1 Changes to certain terms and conditions of the Cooperative Investment Plan

3.1.1.1 Measures applicable to all eligible categories of cooperatives or federations of cooperatives

Special tax relating to the early redemption (5-year term) of qualified securities as part of a winding-up

The tax legislation will be amended to stipulate that, in the case of a block redemption or repayment of qualified securities in the course of a winding-up, the special tax relating to an early redemption will no longer be payable by the cooperative or federation of cooperatives, but by the persons holding the securities immediately prior to their redemption or repayment and by the members of a partnership where the securities are held by such an entity.

For greater clarity, the applicable rate for the purposes of the special tax will be 30% in such a case.

These changes will apply regarding a redemption or repayment made after March 20, 2012.

3.1.2 Renewal of the patronage dividend tax deferral mechanism

To continue to support the growth of cooperatives and federations of cooperatives, the patronage dividend tax deferral mechanism will be renewed for an additional period of ten years.

3.2 Measures pertaining to trusts

3.2.1 Change to the tax payable by an inter vivos trust

The tax legislation will be amended so that the rate applicable for determining the tax payable by an inter vivos trust (including a mutual fund trust and a specified investment flow-through trust) corresponds to the highest rate applicable for the calculation of the tax payable by an individual, i.e. 24% (previously 20%).

This amendment will apply for taxation years of an inter vivos trust ending March 20, 2012 or after that day.

3.2.2 Changes to the taxation of trusts that are not residents of Canada

The tax legislation will be amended so that an inter vivos trust that does not reside in Canada is liable for Quebec tax on its property income derived from the rental of immovable properties located in Quebec. The tax rate applicable to such income will be set at 5.3% to reflect its taxation at the federal level. Such a trust will be required to file a tax return for each taxation year in which it owns such an immovable property, whether or not it has tax payable for the year.

The tax legislation will also be amended to stipulate that an inter vivos trust that does not reside in Canada but becomes a resident of Canada will be deemed to have disposed of its rental immovable properties before becoming a resident of Canada. The trust will have to obtain a compliance certificate from Revenu Québec before disposing of a rental immovable property located in Quebec that it owns when it changes residence. The acquirer of such an immovable property must have received a copy of the compliance certificate from the trust in order not to become liable for payment of this tax.

Application date

These amendments to the tax legislation will apply to a taxation year ending March 20, 2012 or after that day.

4. CONSUMPTION TAXES

No measures were announced.

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