NORTON ROSE FULBRIGHT

Legal update

2018-2019 Quebec budget highlights

March 2018
Tax

In this election year, Quebec's Finance Minister, Carlos J. Leitão, tabled on March 27 the province's 2018-2019 budget.

This budget contains several tax measures affecting businesses and individuals. One of the budget highlights is, without a doubt, the introduction as of 2019 of new rules concerning the application of the QST on e-commerce transactions involving goods or services.

This legal update summarizes the main measures announced as part of this budget. We will publish shortly a more detailed legal update on the new rules pertaining to e-commerce.

It goes without saying that the proposed measures in the budget are not yet law and will have to be adopted by Quebec's National Assembly.

Measures relating to Quebec sales tax and e-commerce

To ensure the collection and remittance of QST in the context of the digital economy, the 2018-2019 budget proposes implementing a single mandatory registration system for suppliers with no physical or significant presence in the province. As such, non-resident suppliers in Quebec will be required to register with Revenu Québec for purposes of collecting and remitting the QST applicable to their taxable intangible personal property and services they supply in Quebec (including digital property and services distribution platforms) to specified Quebec consumers. In addition, in the case of non-resident suppliers in Quebec that are located in Canada, this mandatory registration measure will also be necessary for taxable supplies of tangible personal property made in Quebec to specified Quebec consumers. However, a non-resident supplier of which the value of considerations of all taxable supplies made in Quebec does not exceed $30,000 in the 12-month period prior to the given time will not be required to register with Revenu Québec.

This mandatory registration will come into force on January 1, 2019 for non-resident suppliers in Quebec located outside Canada and on September 1, 2019 for non-resident suppliers in Quebec located in Canada.

Measures relating to businesses

Standardization of SMB tax rates

The 2018-2019 budget proposes to gradually increase the small business deduction (SBD), which will increase from 3.7% to 7.5%, so that the tax rate applicable to the income of a corporation eligible for the SBD reaches 4% in 2021. At the same time, the additional deduction applicable to primary and manufacturing sectors for small and medium-sized businesses (SMBs) will be reduced gradually and completely eliminated in 2021. These changes will apply to a corporation's taxation year ending after March 27, 2018.

Gradual reduction of the Health Services Fund contribution rate for SMBs

The 2018-2019 budget proposes to gradually increase over four years, starting in 2019, the total payroll threshold to allow for a reduction in the contribution rate applicable to specified employers. Accordingly, the total payroll giving rise to a rate reduction will gradually be increased by $5 million to reach $7 million in 2022. As of 2023, the total payroll threshold will automatically be adjusted for each year.

The 2018-2019 budget also proposes to reduce the Health Services contribution rate for eligible specified employers with a total payroll over $1 million. For SMBs in the primary and manufacturing sectors, the rate will gradually decrease from 1.5% to 1.25% (over a five-year period). For SMBs in the service and construction sectors, the rate will gradually decrease from 2.3% to 1.65% (over a five-year period). Eligible specified employers from these sectors whose total payroll will exceed $1 million will also benefit from a gradual reduction in their contribution rates. These rate reductions will apply as of March 28, 2018.

Adjustments to the compensation tax for financial institutions

The compensation tax rates applicable to wages paid will be adjusted and the wages paid on which a financial institution is required to pay a compensation tax will be limited. These changes will be applicable as of April 1, 2018. For more clarity, no change is, however, made to the calculation of the compensation tax on insurance premiums and on the amounts established in an insurance fund.

Increase of the additional capital cost allowance from 35% to 60%

An additional capital cost allowance of 60% will be introduced, replacing the additional capital cost allowance of 35% that was implemented in March 2017. This additional capital cost allowance will be granted for a period of two taxation years and will apply to manufacturing and processing equipment and general-purpose electronic data processing equipment. The property must be new at the time of its acquisition and be acquired after March 27, 2018 and before April 1, 2020.

Broadening the sectors of activity eligible for the tax holiday for large investment projects

This tax holiday will be changed to add the development of eligible digital platforms to the sectors of activity that an investment project must include so it can be recognized as a large investment project. This change will apply to an investment project scheduled to start after March 27, 2018.

Enhancing the refundable tax credit for on-the-job training

The refundable tax credit rate will be enhanced for Aboriginal trainees. Furthermore, the weekly qualified expenditure limit and the maximum hourly rate of this refundable tax credit will be increased on all categories of eligible trainees. Finally, the refundable tax credit rate will be increased on eligible training carried out in the resource regions. These changes will apply to an eligible expenditure incurred after March 27, 2018 on eligible training that will start after that date.

Introduction of a refundable tax credit to encourage qualifying 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 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 incurs after the day of the budget speech and before January 1, 2023.

Introduction of a refundable tax credit to support the digital transformation of print media companies

This refundable tax credit will provide companies with tax assistance of up to $7 million annually for expenditures they will incur after March 27, 2018 and before January 1, 2023 for the digital transformation of their print media activities.

Introduction of a temporary refundable tax credit for pyrolysis oil production in Quebec

This refundable tax credit, at a rate of $0.08 per litre, will be granted to a qualified corporation in respect of eligible pyrolysis oil produced in Quebec by the Corporation, from residual forest biomass, that is sold in and intended for Quebec, up to 100 million litres per year. A qualified corporation will be able to claim this tax credit for a period of five years beginning on April 1, 2018.

Changes to certain refundable tax credits

Quebec film or television production

This refundable tax credit will be amended to allow online-only productions (i.e. that are not also broadcast on television or distributed in theatres) to qualify as eligible productions provided they comply with certain criteria regarding the film’s accessibility in Quebec on an eligible online video service. For an online video service to be eligible, it will, among other things, have to be considered an eligible online service by the Canadian Audio-Visual Certification Office. The rules limiting access to the tax credit to independent producers will also be amended to take into account the broadening of the measure to include online-only productions. The minimum length requirement of 30 minutes for qualified productions will also be amended. These amendments will apply to film and television productions for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was previously filed for the production, is submitted to SODEC after March 27, 2018.

The tax legislation will also be amended to broaden the categories of excluded assistance in order to add financial contributions paid after March 27, 2018 by a public body that holds a foreign licence similar to a broadcasting licence issued by the Canadian Radio-television and Telecommunications Commission, assistance granted after March 27, 2018 by the National Film Board in the form of property or services, and any financial assistance granted after March 12, 2017 by Eurimages.

Film production services

The refundable tax credit will be amended so that a virtual reality documentary may comprise less than 30 minutes of programming or, in the case of a series, less than 30 minutes of programming per episode. This amendment will apply to qualified productions for which an application for an approval certificate is filed with SODEC after March 27, 2018.

Film dubbing

This refundable tax credit for film dubbing corresponds to an amount equal to 35% of a qualified film dubbing expenditure of a corporation for a taxation year, which is limited to an amount corresponding to 45% of the consideration paid to the corporation for the performance of the dubbing contract. The limit of 45% of consideration paid to the corporation will be removed for taxation years beginning after March 27, 2018.

Production of multimedia events or environments presented outside Quebec

This refundable tax credit will be amended to remove the $350,000 limit for qualified productions for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was previously filed for the production, is submitted to SODEC after March 27, 2018.

Production of ethanol, cellulosic ethanol and biodiesel in Quebec

These refundable tax credits will be extended until March 31, 2023. Moreover, as of April 1, 2018, they will be calculated at a fixed rate of $0.03 per litre (ethanol), $0.16 per litre (cellulosic ethanol) and $0.14 per litre (biodiesel). Lastly, the monthly limit on the production of ethanol will be increased.

Measures for individuals

The budget proposes a number of measures affecting individuals, including:

- slightly changing the rates for the dividend tax credit to take into account the general corporate tax rate reduction announced as part of the 2015-2016 budget;
- extending the tax credit for a first major cultural gift until January 1, 2023;
- enhancing the tax credit for experienced workers by lowering the age of eligibility and gradually increasing the amount of eligible income; and
- introducing a first time home buyers' tax credit with a maximum value of $750.

The budget also proposes to extend the eligibility period for the RénoVert refundable tax credit to March 31, 2019 and to enhance the refundable tax credit for childcare expenses.

Other measures

Changes to various parameters of Capital régional et coopératif Desjardins

The budget proposes to create a new class of shares in respect of which a non-refundable tax credit may temporarily be claimed for the purchase of shares of the capital stock of Capital régional et coopératif Desjardins. The proposed amendments will also allow the fund to proceed, on an exceptional basis, with three more capitalization period exceeding its capitalization limit, but while reducing the rate of the non-refundable tax credit.

Temporary maintenance of the tax credit for acquiring shares in Fondaction

The budget proposes to maintain the tax credit at 20% for any eligible share of Fondaction acquired in its next three financial years. However, a limit will be imposed on the capital raised by Fondaction in those years.

For further information, please contact one of the following lawyers:

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