ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

2021-2022 QUÉBEC BUDGET SUMMARY

March 25, 2021

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INTRODUCTION

Minister of Finance Eric Girard’s budget, tabled on March 25, 2021, allows the government to continue its efforts in managing the health crisis while supporting the economy. This budget, focused on resilience and confidence in the future, does not increase the tax burden on Quebecers and supports businesses.

In order to accelerate growth and stimulate the transition to the new economy, the budget proposes tax measures to encourage businesses to adopt new technologies and provides for a reduction in the tax rate for SMEs.

The government intends to continue its actions aimed at ensuring the integrity and fairness of the tax system, including ensuring the collection of QST in the context of the digital economy.

Here are the highlights of the 2021-2022 budget.

MEASURES PERTAINING TO INDIVIDUALS

Enhancement to the refundable tax credit for home-support services for seniors

Enhancements will be introduced to the calculation of the tax credit for home-support services for seniors namely, a gradual increase in the tax credit rate applicable to eligible expenses and an increase in eligible expenses as well as the application of a “minimum eligible monthly rent” for seniors living in a rental apartment building.

Change in the calculation parameters for the tax credit for home-support services for seniors

Gradual increase in the rate of the tax credit for home-support services for seniors applicable to eligible expenses

The rate of this tax credit applicable to eligible expenses will be gradually increased in the coming years. Starting in 2022, the current 35% tax credit rate will be raised annually by one percentage point to reach 40% in 2026.

This increase in the rate of the tax credit for home-support services for seniors will benefit both non-dependent and dependent seniors.

<u>New terms for calculating the reduction of the tax credit home-support services for seniors based on income</u>

Dependent seniors

The tax legislation will be amended to reintroduce a reduction mechanism applicable to dependent seniors, while ensuring a minimum level of tax assistance.

For taxpayers with household incomes above the reduction threshold, the increase will be reduced by 3% for each dollar of household income exceeding this threshold. For information purposes, the applicable threshold for the 2021 tax year is $60,135 and is subject to annual indexation.

This new reduction aimed at dependent seniors will only apply to the “amount of the enhanced tax credit for home-support services for seniors”. Therefore, this reduction in the tax credit will only apply to the increased portion. This way, regardless of their income, non-autonomous seniors will continue to benefit from tax assistance equal to at least 35% of their eligible expenses, which corresponds to the maximum refundable tax credit for home-support services for seniors currently offered in 2021.

Non-dependent seniors

The government is announcing that the amount granted under the refundable tax credit for home-support services for seniors will be reduced based on household income in two phases:

> first, at a rate of 3% for every dollar of household income exceeding the 1st threshold up to an income of $100,000;
> subsequently, at a rate of 7% for each dollar of household income exceeding $100,000.

The first applicable reduction threshold is set at $60,135 for the year 2021 and is subject to annual indexation. The amount of $100,000 will be subject to annual indexation starting in 2023.

(*See table 1 in appendix.*)

Application date

The gradual increase in the rate of the tax credit for home-support services for seniors by one percentage point per year will apply as of 2022. Similarly, the reduction in the tax credit for home-support services for seniors based on family income under the new thresholds will also apply as of 2022.

Increase in eligible expenses in respect of the tax credit for home-support services for seniors living in a rental apartment building

Increase in limit

The 5% rate that applies to the monthly rent will now apply to a maximum monthly rent of $1,200 (instead of $600) for the dwelling unit of which the senior is a tenant, co-tenant or subtenant, thereby doubling the maximum tax assistance in this regard.

Introduction of a "minimum eligible monthly rent" amount

A presumption will be introduced in the tax legislation to provide that the minimum amount for any rent will be $600 per month, therefore establishing the lowest amount to which the 5% rate will apply in determining the deemed amount of minimum eligible expenses included in the rent for the purposes of the tax credit for home-support services for seniors living in a dwelling unit of a rental apartment building.

This amount will be referred to as the "minimum eligible monthly rent."

Automatic payment of the tax credit for home-support services for seniors related to the "minimum eligible monthly rent" amount

The tax credit for home-support services for seniors related to the amount of the "minimum eligible monthly rent" will be automatically paid by Revenu Québec to dependent seniors. The same will apply to non-dependent seniors whose family income entitles them to this, with the payment taking into account the applicable reduction based on their family income level.

In addition, seniors living in a dwelling unit of a rental apartment building who wish to receive tax assistance for expenses included in their rent based on the actual amount of their rent, subject to a maximum of $1,200—and not only assistance based on the $600 "minimum eligible monthly rent"—will have to apply for it.

Application date

The new measures to increase the eligible expenses for the tax credit for home-support services for seniors included in the rent of a senior living in a dwelling unit of a rental apartment building will apply as of 2022.

Change in the rate of the dividend tax credit for non-eligible dividends

To ensure a better integration of the Québec corporate tax system with the personal tax system, the rate of the dividend tax credit for non-eligible dividends will be reduced.

The rate of the tax credit for non-eligible dividends, which is currently 4.01% of the grossed-up dividend amount, will be reduced to 3.42% of the grossed-up dividend amount of a dividend received or deemed received after December 31, 2021.

For greater clarity, no change is made to the non-eligible dividend gross-up rate.

MEASURES PERTAINING TO BUSINESSES

Increase in the small business deduction rate and addition of an option for the number of remunerated hours

Increase in the small business deduction rate

To further ease the tax burden on SMBs, the current 7.5% SBD rate will be raised so that the maximum rate available to a corporation for the period that begins on the day following the March 26, 2021 is 8.3%.

Minimum tax rate applicable to income eligible for the SBD
(per cent)

	Applicable rate	
	January 1, 2021 to March 25, 2021	**As of March 26, 2021 2021**
General tax rate	11.5	11.5
Maximum SBD rate	-7.5	-8.3
TOTAL	4.0	3.2

The announced change to the SBD rate will apply to a corporation's taxation years ending after the March 25, 2021.

If a taxation year of a corporation straddles periods to which different SBD rates apply, the SBD rate that will apply to the corporation for that taxation year will correspond to an average rate calculated taking into account the number of days in the taxation year included in each period and the SBD rate applicable to each of these periods.

The other terms and conditions pertaining to the SBD— as regards, for example, the linear reduction of the SBD rate on the basis of the number of remunerated hours and the proportion of primary and manufacturing sectors activities—will remain unchanged.

Instalment payments

A corporation's instalment payments may be adjusted, as applicable, in accordance with the usual rules, as of the first instalment that follows the March 25, 2021, to take into consideration the changes to the SBD rate.

Addition of an option for the number of remunerated hours

For a given taxation year that ended after June 30, 2020, but before July 1, 2021, a corporation may apply to the Minister of Revenue for the number of remunerated hours, for its taxation year immediately preceding the given year, to be used to determine whether it qualifies for the SBD or to establish its SBD rate for the given year.

For a given fiscal period of a partnership that ends after June 30, 2020 and before July 1, 2021, a corporation that is a member of the partnership during a taxation year in which the given fiscal period ends may apply to the Minister of Revenue for the partnership's remunerated hours, for its fiscal period ended immediately before the given period, to be used to determine eligibility for the SBD of the corporation's share of the partnership's income for the given period.

A corporation may apply to the Minister of Revenue when filing its tax return, or if the tax return has already been sent, submit its request separately.

Temporary increase in the tax credit relating to investment and innovation

The tax credit relating to investment and innovation is granted to a qualified corporation that acquires, after March 10, 2020 and before January 1, 2025, manufacturing or processing equipment, general-purpose electronic data processing equipment or certain management software packages.

The tax legislation will be amended to temporarily double the rates of the tax credit relating to investment and innovation so that the tax credit rate is equal to:

> 40% for a specified property acquired to be used mainly in the low economic vitality zone;
> 30% for a specified property acquired to be used mainly in the intermediate zone;
> 20% for a specified property acquired to be used mainly in the Montréal and Québec City metropolitan communities.

Rates of the tax credit relating to investment and innovation
(per cent)

Place where the property is acquired to be used mainly	Rates applicable after March 10, 2020 and ending on March 25, 2021	Rates applicable after March 25, 2021 but before January 1, 2023
Low economic vitality zone	20	40
Intermediate zone	15	30
High economic vitality zone	10	20

Application date

This temporary increase will apply to specified expenses incurred after March 25, 2021 but before January 1, 2023 for:

> property acquired after March 25, 2021 but before January 1, 2023; or
> property acquired after March 25, 2021 but before April 1, 2023, where:

- either the property was acquired in accordance with a written obligation contracted before January 1, 2023; or
- construction for the property by or on behalf of the corporation or partnership had started before January 1, 2023.

The temporary increase will not apply to a property:

> acquired in accordance with a written obligation contracted on March 25, 2021 or before that day;
> whose construction, by or on behalf of the corporation or partnership, had started on March 25, 2021.

Changes to the tax holiday for large investment projects

A corporation that carries out a large investment project in Québec may, under certain conditions, benefit from a tax holiday in respect of the income from its eligible activities relating to the project and a holiday from employer contribution to the Health Services Fund (HSF) regarding the portion of wages paid to its employees that is attributable to the time they devote to such activities.

In order to support Québec businesses in carrying out of their investment project, the following three changes will be made:

> extension of the start-up period for certain investment projects;
> addition of a choice for a corporation or a partnership with respect to the date of the beginning of the tax-free period for its investment project;
> possibility for a project to modernize a business through digital transformation to be recognized as a large investment project.

Temporary enhancement of the refundable tax credit for on-the-job training periods

The tax credit rates, other than the enhanced rates applicable to eligible trainees enrolled in an education program or a prescribed program, will be increased by 25%.

The tax legislation will be amended so that:

> the basic rate of the tax credit is increased from 24% to 30% where the eligible taxpayer is a corporation;
> the basic rate of the tax credit is increased from 12% to 15% where the eligible taxpayer is an individual;
> where the eligible trainee is a disabled person, an immigrant, an Aboriginal person or where the on-the-job training takes place in an eligible region:
  - the tax credit rate is increased from 32% to 40% where the eligible taxpayer is a corporation,
  - the tax credit rate is increased from 16% to 20% where the eligible taxpayer is an individual.

(*See table 2 in appendix.*)

For greater clarity, the enhanced rates of the tax credit will remain unchanged in respect of an eligible trainee enrolled in an education program or a prescribed program.

Application date

These amendments will apply to qualified expenditures incurred after the March 25, 2021 and before May 1, 2022 in respect of a qualified training period beginning after the March 25, 2021.

Elimination of the requirement to obtain an advance ruling for R&D tax credits

Currently, a taxpayer can benefit from a R&D university tax credit only if a favourable advance ruling has been given by the Minister of Revenue regarding the research contract.

Furthermore, an individual who is a member of a partnership may only benefit from his portion of the R&D salary tax credit or the R&D university tax credit if a favourable advance ruling by the Minister of Revenue has been given confirming that the objectives of these tax credits and formalities for obtaining financing have been met.

The tax legislation will be amended to eliminate the requirement to obtain a favourable advance ruling from the Minister of Revenue to benefit from these tax credits.

This requirement will be replaced by changes to the information collected by Revenu Québec to verify the conditions for applying these tax credits and continue to ensure the integrity of the measures.

Application date

The changes will apply as of March 26, 2021.

Where an application for an advance ruling has already been sent, but no ruling has yet been given, the Minister of Revenue will give the applicant the opportunity to withdraw the application.

Addition of restrictions to certain tax incentives

Several tax incentives, particularly in the cultural sector, include specific restrictions, such as those on content intended for an adult audience that contains explicit sex scenes. Other tax measures also include restrictions on content that promotes, among other things, discrimination, racism or violence.

The changes in digital technology necessitated a review of the current restrictions in terms of the objectives of this tax assistance and brought to light the need to introduce specific restrictions to ensure that those objectives are achieved.

As such, restrictions will be added to the following tax credits:

- Tax holiday for large investment projects
- R&D tax credits
- Tax credit for the development of e-business
- Tax credit relating to investment and innovation
- Tax credits for multimedia titles
- Synergy capital tax credit

MEASURES PERTAINING TO THE QUÉBEC SALES TAX

Clarifications to the December 21, 2020 announcement regarding the Québec sales tax for electronic commerce

On November 30, 2020, the Government of Canada tabled some legislative proposals with respect to the application of the goods and services tax and the harmonized sales tax (GST/HST) in relation to electronic commerce supplies (hereinafter, "federal proposals"), some of which echo measures already adopted by Québec in this regard.

The Québec government already made public its general intention to harmonize the QST system with the federal proposals.

Cross-border digital products and cross-border services

To avoid any difference in harmonization between the QST and GST/HST systems that may result from the implementation of the federal proposals relating to cross-border digital products and cross-border services (e.g. provisions relating to the calculation of the $30,000 threshold), amendments will be made to the Québec tax legislation to adjust it accordingly.

Goods supplied through fulfillment warehouses

The amendments made to Québec's tax legislation will mean that:

- distribution platform operators are required to register under the normal QST rules and to collect and remit the tax applicable to sales of corporeal movable property that are located in fulfillment warehouses in Québec or shipped from a place in Québec to a purchaser in Québec (hereinafter, "qualifying supplies"), where those qualifying supplies are made by non-registered vendors through distribution platforms;
- non-resident vendors are required to register under the normal QST rules and to collect and remit the tax applicable to qualifying supplies, when those supplies are made by the non-resident vendors on their own, that is, they are not made through a distribution platform;
- fulfillment businesses in Québec will be required to notify Revenu Québec that they are carrying on a fulfillment business and to maintain records regarding their non-resident clients and the corporeal movable property they store on behalf of their non-resident clients.

The specified registration system will be changed to ensure the QST applicable to sales of corporeal movable property located in fulfillment warehouses in Canada but outside Québec or shipped from a place in Canada but outside Québec to a specified Québec consumer in Québec.

Platform-based short-term accommodation

The Québec tax legislation will be amended in order to incorporate into it all of the federal proposals relating to the application of the GST/HST to platform-based short-term accommodation, by adapting them based on the general principles of the Québec tax system and taking into account its particularities and the provincial context in which the QST is applied.

Application date of these measures

The amendments to the Québec tax legislation will come into effect on the same date as the date retained to implement the federal proposals with which they are harmonized.

OTHER MEASURES

Modifications to tax-advantaged funds

Changes to various parameters of Capital régional et coopératif Desjardins

Amendments will be made to the Act constituting Capital régional et coopératif Desjardins and the tax legislation to:

> allow Capital régional et coopératif Desjardins to proceed, on an exceptional basis, with two more capitalization periods exceeding its capitalization limit;
> reduce the non-refundable tax credit (from 35% to 30%) in respect of the acquisition of a category A share acquired after February 28, 2021;
> extend other conversion periods for the exchange of category A shares into category B shares to add two new conversion periods, to begin on March 1, 2021 and 2022 and end on the last day of February of the following year;

Maintenance of the compensation tax for financial institutions

In order for financial institutions to continue contributing to the funding of public services, the compensation tax for financial institutions will be maintained beyond March 31, 2024.

The terms and rates of the compensation tax that were to apply for the period beginning April 1, 2022 and ending March 1, 2024 will continue to apply after March 1, 2024.

Further extension of the credit on the employer contribution to the Health Services Fund in respect of employees on paid leave

Since the terms of the Canada Emergency Wage Subsidy (CEWS) have been made public for the periods from March 14, 2021 to June 5, 2021, the government is announcing a further extension of the tax credit in respect of employer contributions to the Health Services Fund for employees on paid leave until June 5, 2021.

Measures concerning trusts

Harmonization with the Department of Finance Canada's July 27, 2018 news release

On July 27, 2018, the Department of Finance Canada released draft tax legislative proposals to improve the collection of beneficial ownership information with respect to trusts.

To achieve this objective, it is proposed that certain trusts be required to provide additional information on an annual basis, that certain trusts be required to file a tax return in cases where there is no such obligation at this time, and that a penalty be added, particularly in some events of non-filing.

These new measures are expected to apply to taxation years of trusts ending after December 30, 2021.

Québec tax legislation and regulations will be amended to incorporate the changes made to the federal tax legislation and regulations relating to trusts, in accordance with their general principles except for the amount of the penalty.

Therefore, the person or partnership concerned will incur, for the purposes of the Québec tax system, a penalty equal to $1,000 and an additional penalty of $100 per day, calculated as of the second day that the omission or default lasts, up to a maximum of $5,000[1].

For greater clarity, existing penalties will continue to apply.

Application date

These changes will apply on the same dates as those retained for the purposes of the federal measures with which they harmonize.

[1] The penalty under Québec's tax system will replace the penalty equal to the greater of $2,500 or 5% of the fair market value of the property held by the trust, proposed for the purposes of the federal tax system.

Change in the requirement for a trust to file an information return

To allow Revenu Québec to have a more complete picture of the trusts that hold a rental property in Québec, changes will be made to Québec's tax regulations regarding the expression “excluded trust.” Thus, a testamentary trust will no longer be an excluded trust. The same will apply to a succession, with the exception of a succession that is a graduated rate estate.

Application date

These amendments to Québec tax regulations will apply to taxation years that end after December 30, 2021.

Addition of a requirement to provide a trust's tax identification number

To facilitate the identification of trusts for the purposes of the Québec tax system, the tax legislation will be amended to add a trust's tax identification number as mandatory identification information.

Thus, a trust will have to obtain its tax identification number from the Minister of Revenue if it does not have one.

Application date

This amendment will apply to any return, report or other document required to be filed under a tax law after March 25, 2021.

Addition of requirement to provide the trust account number

To allow for better identification of trusts for the purposes of the Québec tax system, the tax legislation will be amended to add the trust account number, as defined in federal tax legislation, as mandatory identification information.

Application date

This amendment will apply to any return, report or other document required to be filed under a tax law after March 25, 2021.

Autonomous application of the penalty for promoters of aggressive tax planning

The tax legislation will be amended so that the penalty applicable to a promoter of a transaction or series of transactions that includes the transaction reviewed under the general anti-avoidance rule (GAAR) will apply autonomously, regardless of whether there is a penalty applied beforehand on the taxpayer who is subject to a GAAR-based assessment.

However, for greater clarity, the penalty will only be applied to a promoter once the Minister of Revenue has established a GAAR-based assessment against a taxpayer.

Application date

This amendment will apply as of the date the bill giving effect thereto is assented to.

Alleviating the financial burden of students during the pandemic

The government is announcing two one-time support measures:

> a lump sum of $100 for both the fall 2020 and winter 2021 semesters for full-time college and university students;
> eliminating interest on student loans for one year, from April 1, 2021 to March 31, 2022 in order to alleviate student debts.

Simplifying the property tax refund for forest producers

The government is proposing adjustments aimed at simplifying the determination of refunds related to these property taxes:

> the refund will be granted even if the eligible forest development expenses are lower than the property tax amount for a property assessment unit;
> the property tax refund will no longer be calculated by unit; the calculation will now be based on an owner's combined property assessment units.

APPENDIX

Table 1

Parameters for calculating the tax credit for home-support services for seniors for 2021 and new calculation parameters for 2022 to 2026

	2021	2022	2023	2024	2025	2026 (When fully implemented)
Non-dependent seniors						
- Tax credit rate	35%	36%	37%	38%	39%	40%
- 1st reduction threshold: family income (in $)[1]	60,135	61,155	62,195	63,250	64,325	65,420
- 1st reduction rate	3 %	3 %	3 %	3 %	3 %	3 %
- 2nd reduction threshold: family income (in $)[1]	---	100,000	101,700	103,430	105,190	106,980
- 2nd reduction rate	---	7%	7%	7%	7%	7%
Dependent seniors						
- Tax credit rate	35%	36%	37%	38%	39%	40%
- Reduction threshold: family income (in $)[1]	60,135	61,155	62,195	63,250	64,325	65,420
- Reduction rate[2]	---	3%	3%	3%	3%	3%

1 The reduction thresholds will be indexed each year. The amounts shown starting in 2022 represent a forecast based on an average indexing rate of 1.7% per year, except for the $100,000 amount applicable in 2022 as the second reduction threshold. These amounts are rounded to the nearest $5.

2 Only the “amount of the enhanced tax credit for home-support services for seniors” will be reduced.

Table 2

Refundable tax credit rate for on-the-job training periods
(per cent)

	Start date of training period		
	On March 25, 2021 or before	After March 25, 2021, with regard to a qualified expenditure incurred after that day and before May 1, 2022	For a qualified expenditure incurred after April 30, 2022
Basic rate			
Employer's status:			
- Corporation	24	30	24
- Individual	12	15	12
Disabled person, immigrant, Aboriginal person or person serving a training period in an eligible region			
Employer's status:			
- Corporation	32	40	32
- Individual	16	20	16
Education program or prescribed program			
Employer's status:			
- Corporation	40	40	40
- Individual	20	20	20
Education program or prescribed program, in respect of a disabled person, immigrant, Aboriginal person or person serving a training period in an eligible region			
Employer's status:			
- Corporation	50	50	50
- Individual	25	25	25

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