ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

2018 FALL ECONOMIC UPDATE SUMMARY – QUÉBEC

December 3, 2018

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INTRODUCTION

The Premier of Québec François Legault and the Minister of Finance Eric Girard have taken the opportunity provided by the fall economic update to announce concrete actions for putting money back in the pockets of Québec families and seniors. The government is also taking steps to encourage acceleration of business investment.

Here are the highlights of the 2018 fall economic update.

MEASURES PERTAINING TO INDIVIDUALS

Enhancement of the maximum amount of the child assistance payment for second and third children

As of the 2019 taxation year, the refundable tax credit for child assistance will become the refundable tax credit granting an allowance to families, and the child assistance payment that it includes will be renamed the family allowance.

The tax legislation will be amended so as to increase by $500 the maximum amount for an eligible individual's second and third children with respect to the calculation of the family allowance to which the individual will be entitled.

The maximum amount for each second and third child will be adjusted automatically each year as of 2020 in accordance with the usual rules.

Maximum amounts used to calculate the family allowance – 2019
(dollars)

	Before enhancement	After enhancement	Difference
1st child	2,472	2,472	–
2nd child	1,235	1,735	500
3rd child	1,235	1,735	500
4th and next children	1,852	1,852	–

Exceptionally, the part of the family allowance amount for January to March 2019 attributable to the $500 enhancement of the maximum amount for each of an eligible individual's second and third eligible dependent children will be paid by Retraite Québec in the first 15 days of April 2019.

Introduction of a refundable tax credit for senior assistance

To support low-income seniors, the government is announcing the introduction of the senior assistance amount.

The amount of this new refundable tax credit will be $200 for a low-income senior aged 70 or over and will take effect in 2018.

The refundable tax credit is designed to improve the support provided to seniors the most in need. It will be reduced at a rate of 5% starting at a family income of:

> $22,500, in the case of single seniors aged 70 or over;
> $36,600, in the case of senior couples in which one of the spouses is aged 70 or over.

As of 2019, the parameters of the measure will be indexed annually.

Illustration of the new senior assistance amount – 2018
(dollars)

Family income(1)	Single senior	Senior couple(2)
20,000 or less	200	400
22,500	200	400
23,000	175	400
24,000	125	400
25,000	75	400
26,000	25	400
26,500	–	400
35,000	–	400
36,600	–	400
40,000	–	230
42,500	–	105
44,000	–	30
44,600 or more	–	–

(1) Illustration of pension income that includes the Old Age Security pension and the Guaranteed Income Supplement.
(2) Couple composed of two seniors aged 70 or over.

Eligible individual

An eligible individual is an individual who, at the end of December 31 of the taxation year meets the following conditions:

> the individual is resident in Québec, or, if the individual is the eligible spouse for the year of a person who is deemed resident in Québec throughout the year, the individual was resident in Québec during a prior year;
> the individual has or the individual's eligible spouse for the year has, the status of one of the following:

- a Canadian citizen,
- a permanent resident,
- a temporary resident or a holder of a temporary resident permit who was resident in Canada during the 18-month period preceding that time,
- a protected person.

Eligible spouse

The eligible spouse of an individual is the person who is the individual's eligible spouse for the year for the purposes of the transfer to the spouse of the unused portion of certain non-refundable tax credits.

Sharing of the refundable tax credit between the spouses

The refundable tax credit for senior assistance will be shared between the spouses based on the proportion they have agreed to in a prescribed form.

Automatic payment of the refundable tax credit for senior assistance

When neither the individual, nor the individual's spouse claim the refundable tax credit, the Minister of Revenue may pay the tax credit to which the individual is entitled to such individual or to the individual's spouse.

To claim this new refundable tax credit, the individual and the individual's eligible spouse will have to have filed their tax return.

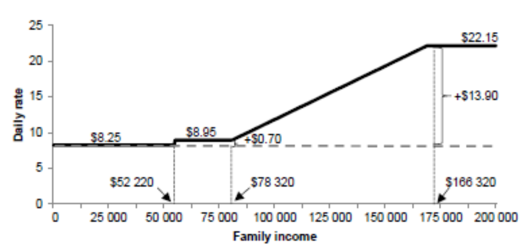
Freeze on the additional contribution for childcare

The government is reiterating its commitment to eliminate the additional contribution payable by parents whose children attend a subsidized childcare service and to do so during its first mandate.

The government is acting swiftly in taking the first step by announcing that the amount of the additional contribution will be frozen at the 2018 amount starting in 2019:

- > the minimum amount of the additional contribution will remain at $0.70.
- > the maximum amount of the additional contribution will remain at $13.90.

Illustration of the additional contribution for childcare – 2019
(dollars)



Adjustments to the work premiums reduction thresholds

The tax regulations will be amended, as of the 2019 taxation year, to take into account in the calculation of the reduction thresholds used to determine the general and adapted work premiums, the following elements:

- > the amount that would be payable in respect of the given work income as employee first additional contribution to the Québec Pension Plan (QPP);
- > the deduction regarding the amount of this employee first additional contribution to the QPP, which will be granted in the calculation of income, for the purpose of determining the federal income tax that would be payable in respect of the given work income.

MEASURES PERTAINING TO BUSINESSES

Harmonization with certain measures announced in the *Fall Economic Statement 2018* of the Department of Finance Canada

On November 21, 2018, the Department of Finance Canada proposed changes to the federal tax system as regards the capital cost allowance.

Subject to the special rules with regard to a property that is qualified intellectual property or property that is composed of general-purpose electronic data processing equipment, the Québec tax regulations will be amended to incorporate changes announced by the federal government.

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

Increase to 100% in the depreciation rate for certain property to boost productivity

Businesses, up until 2024, will be able to immediately write off the full cost of investments in:

- > manufacturing and processing equipment;
- > clean energy generation equipment.

To enable businesses to write off 100% of the value of their investments in the first year, the half-year rule will no longer apply in respect of eligible investments.

Introduction of enhanced capital cost allowance to foster development of all businesses that invest

As proposed by the federal government, businesses will be able to claim up to three times the amount of the capital cost allowance normally applicable in the first year for all types of investments not covered by the increase in the depreciation rate to 100%.

It will apply to all businesses that make investments in any sector of the economy and in any region.

The enhanced capital cost allowance can be claimed only for the taxation year in which the property becomes available for use.

Special rules with regard to qualified intellectual property or general-purpose electronic data processing equipment

The proposed changes to the federal tax system regarding accelerated depreciation will be adjusted, for the purposes of Quebec's tax system, so that a taxpayer may deduct, for the taxation year in which the property becomes available for use, the full cost of acquisition of a property that is qualified intellectual property or general-purpose electronic data processing equipment.

Qualified intellectual property

Qualified intellectual property will mean property acquired after December 3, 2018, that is a patent or a right to use patented information, a licence, a permit, know-how, a commercial secret or other similar property constituting knowledge, namely, property included in Class 14, in Class 14.1 or in Class 44 that meet specific conditions.

General-purpose electronic data processing equipment

A property composed of general-purpose electronic data processing equipment and systems software for that equipment is a property included in Class 50 acquired after December 3, 2018 and used primarily in Québec.

See appendix for more detail on the impact of the announced measures.

Introduction of an additional capital cost allowance of 30%

To encourage continued investment in manufacturing and processing equipment, clean energy generation equipment, general-purpose electronic data processing equipment and certain intellectual property, an additional capital cost allowance of 30% will be introduced. This additional capital cost allowance will be permanent.

The tax legislation will thereby be amended to allow a taxpayer who acquires contemplated property, after December 3, 2018, to deduct an amount corresponding to 30% of the amount deducted in computing such income, for the previous taxation year, on account of the capital cost allowance (CCA) for the contemplated property.

Contemplated property

For the purposes of the additional capital cost allowance of 30%, contemplated property will be, on the one hand, a particular property that is:

> machinery or equipment used in manufacturing or processing, namely, property included in Class 53, other than property that had allowed or could have allowed the taxpayer to claim the additional capital cost allowance of 60%, or property acquired after 2025 that is property included in Class 43, but that would have been included in Class 53 had it been acquired in 2025;

> clean energy generation equipment, namely, property included in Class 43.1 or in Class 43.2;

> property composed of general-purpose electronic data processing equipment and systems software for that equipment, namely, property included in Class 50, other than property that had allowed or could have allowed the taxpayer to claim the additional capital cost allowance of 60%.

The particular property must be new at the time of its acquisition by the taxpayer and not property acquired from a person or partnership with which the taxpayer does not deal at arm's length. It must begin to be used within a reasonable time after being acquired and be used primarily in Québec in the course of carrying on a business for a period of at least 730 consecutive days after the property's use began by the taxpayer or a person with whom the taxpayer does not deal at arm's length and in the circumstances in which a transfer, amalgamation or winding-up occurred.

If, at any time in the 730-days period, an event occurs that prevents one of the conditions allowing a particular property to be a contemplated property from being met, the particular property will not be a contemplated property.

For the purposes of the additional capital cost allowance of 30%, contemplated property will be, on the other hand, a qualified intellectual property.

Separate class

A separate class will be provided for properties of a same class for which a taxpayer may claim the additional capital cost allowance of 30%.

Elimination of the additional capital cost allowance of 60%

As a consequence of the introduction of the additional capital cost allowance of 30%, the additional capital cost allowance of 60% introduced by the March 2018 Québec Budget will be eliminated as of December 4, 2018.

However, following the announced increase in the amount of the CCA that a taxpayer may claim in respect of property, changes will be made to the tax legislation so as to maintain the same level of effective assistance associated with the additional capital cost allowance of 60% as that provided for at the time the allowance was introduced.

These changes will apply to qualify property acquired after November 20, 2018 and before December 3, 2018.

The additional capital cost allowance of 60% may also apply in respect of such property acquired after December 3, 2018, but before July 1, 2019, if either of the following conditions is met:

> the qualified property is acquired in accordance with an obligation in writing entered into not later than December 3, 2018;
> the construction of the property by or on behalf of the taxpayer began before December 3, 2018.

APPENDIX

Significantly accelerated capital cost allowance in respect of investments

By taking steps to accelerate depreciation as a means of driving business investment, the government is substantially lowering the cost of investments for Québec businesses.

Impact of the announced measures on certain depreciation rates

	Before the changes		After the new measures	
	Year of acquisition(1)	Other years(2)	Year of acquisition(3)	Other years(2)
Increase in the depreciation rate to 100%				
Computer hardware	27.5%	55%	100%	55%(4)
Manufacturing and processing equipment	25%	50%	100%	50%(4)
Clean energy generation equipment	15% / 25%	30% / 50%	100%	30% / 50%(4)
Intellectual property	Variable(5)	Variable(5)	100%	Variable(5)
Enhanced depreciation				
Software	50%	100%	100%	100%(4)
Motor vehicules	15%	30%	45%	30%
Data network infrastructure equipment	15%	30%	45%	30%
Office equipment	10%	20%	30%	20%
Fibre-optic cables	6%	12%	18%	12%
Buildings used for manufacturing and processing activities	5%	10%	15%	10%
Other non-residential buildings	3%	6%	9%	6%

(1) The tax rules provide for application of the half-year rule in the year of acquisition.
(2) Rate applicable to the undepreciated capital cost.
(3) The half-year rule will not apply.
(4) In the event that a corporation does not write off the full capital cost in the year of acquisition, the normal rate will apply to the undepreciated capital cost.
(5) The depreciation rate is determined on the basis of the useful life of the intellectual property.

NOTICE TO USERS

This summary is based on the documents issued by the Québec government. The legislation, when enacted, may vary from the summary described herein. Professional advice should be obtained.

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