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ADDITIONAL INFORMATION 2015-2016



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ADDITIONAL INFORMATION

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1. MEASURES CONCERNING INDIVIDUALS

1.1 Gradual elimination of the health contribution as of January 1, 2017

Currently, any adult who resides in Québec at the end of a year¹ is generally required to pay a health contribution for that year, unless his or her income for the year is equal to or less than \$18 370. Adjusted based on income, the health contribution can be \$100 for low-income taxpayers, \$200 for middle-class taxpayers and \$1 000 for high-income taxpayers.

To reduce the tax burden on individuals, the health contribution will be gradually eliminated beginning in 2017 and will be removed completely by 2019. However, for low-income taxpayer, its elimination will be completed in 2017, since the threshold as of which the health contribution becomes payable will be set at more than \$40 000. For others, the maximum amount payable will decline to \$125 in 2017 and \$80 in 2018 if they belong to the middle class, and \$800 in 2017 and \$600 in 2018 if they have a high income.

More specifically, for 2017, the health contribution that will be payable by an adult who resides in Québec at the end of the year, other than an exempt adult, will be:

- if the individual's income for the year does not exceed the amount obtained after indexing, for 2016 and 2017, the \$132 650 threshold, equal to \$125 or to 5% of the amount by which the individual's income exceeds the amount obtained after indexing, for 2016 and 2017, the \$40 820 threshold, whichever is lower;
- if the individual's income for the year is higher than the amount obtained after indexing, for 2016 and 2017, the \$132 650 threshold, equal to \$800 or to the aggregate of \$125 and 4% of the amount by which the individual's income exceeds the amount of \$132 650 so indexed, whichever is lower.

For 2018, the health contribution that will be payable by an adult who resides in Québec at the end of the year, other than an exempt adult, will be:

- if the individual's income for the year does not exceed the amount obtained after indexing, for 2016, 2017 and 2018, the \$132 650 threshold, equal to \$80 or to 5% of the amount by which the individual's income exceeds the amount obtained after indexing, for 2016, 2017 and 2018, the \$40 820 threshold, whichever is lower;

1 For the purposes of the rules governing liability for the health contribution, an individual is deemed to be resident in Québec at the end of a year where, for the purposes of the *Taxation Act* (CQLR, chapter I-3), the individual is deemed to have been resident in Québec throughout the year, unless the individual is deemed to have been resident in Québec because he or she sojourned in Québec for one or more periods totalling 183 or more days while ordinarily resident outside Canada.

- if the individual's income for the year is higher than the amount obtained after indexing, for 2016, 2017 and 2018, the \$132 650 threshold, equal to \$600 or to the aggregate of \$80 and 4% of the amount by which the individual's income exceeds the amount of \$132 650 so indexed, whichever is lower.

The following table illustrates the gradual elimination of the health contribution for the year preceding its complete elimination.

TABLE A.1

Illustration of the gradual elimination of the health contribution for 2017 and 2018
(dollars)

Adult's income ⁽¹⁾		Health contribution		
Higher than	Without exceeding	Current situation	2017	2018
—	18 370.00	—	—	—
18 370.00	40 820.00	0.01 to 100.00	—	—
40 820.00	132 650.00	100.01 to 200.00	0.01 to 125.00	0.01 to 80.00
132 650.00	—	200.01 to 1 000.00	125.01 to 800.00	80.01 to 600.00

(1) The income brackets indicated in this table do not take into account the fact that the thresholds are automatically indexed each year on January 1.

As of 2019, the *Act respecting the Régie de l'assurance maladie du Québec*² will no longer require adults to pay a health contribution.

For determining the health contribution for 2017 and 2018, any adult who is exempt from tax for the particular year under subparagraph *a*, *b*, *c* or *f* of the first paragraph of section 96 of the *Tax Administration Act*³ will be considered an exempt adult.

In addition, an individual's instalment payments may be adjusted, according to the usual rules, as of the first instalment for 2017 in order to take into account the effects of the gradual elimination of the health contribution.

1.2 Enhancement of the tax credit for experienced workers

To encourage experienced workers to remain in or re-enter the labour market, the tax system allows workers 65 or older to claim a tax credit that eliminates the income tax payable on the first \$4 000 of eligible work income in excess of the first \$5 000 of such eligible income.

2 CQLR, chapter R-5.

3 CQLR, chapter A-6.002.

Currently, an individual who, at the end of a particular taxation year or, if the individual dies in the year, on the date of his or her death, is resident in Québec and has turned 65 can deduct, in calculating his or her tax otherwise payable for the year, an amount equal to the amount determined using the following formula:

$$\begin{array}{l} \text{The rate applicable to the first} \\ \text{taxable income bracket} \\ \text{of the income tax table} \\ \text{(16\% in 2015)} \end{array} \times \begin{array}{l} \$4\,000 \text{ or the amount by which} \\ \text{the individual's eligible work} \\ \text{income for the year exceeds} \\ \$5\,000, \text{ whichever is lower} \end{array} \times \begin{array}{l} \text{The amount by which 1} \\ \text{exceeds the rate used for} \\ \text{the purposes of calculating} \\ \text{the deduction for workers}^4 \end{array}$$

Briefly, for the purposes of this tax credit, an individual's eligible work income for a year is the remuneration included in the calculation of his or her income for the year from an office or employment, the amount by which the individual's income for the year from any business he or she carries on either alone or as a partner actively engaged in the business exceeds his or her losses for the year from such businesses, and the grants received by the individual in the year to carry on research or any similar work.

To encourage a greater number of experienced workers to remain in or re-enter the labour market, several changes will be made to the tax credit for experienced workers as of taxation year 2016.

Essentially, these changes will, over a period of two years, lower the age of eligibility for the tax credit from 65 to 63 and gradually increase the maximum amount of eligible work income on which the tax credit is calculated until it reaches \$10 000 for all workers age 65 and over.

Also, to ensure that this measure is directed primarily toward persons who could be influenced by such an incentive to remain in or re-enter the labour market, the tax credit will be reducible based on work income.

TABLE A.2

**Adjustment of maximum eligible work income above the first \$5 000
based on worker's age**
(dollars)

Age of experienced worker	Maximum eligible work income			
	2015	2016	2017	2018 and later
65 and over	4 000	6 000	8 000	10 000
64	—	4 000	6 000	8 000
63	—	—	4 000	6 000

4 For 2015, the result of this operation is equal to 0.94. This final component of the calculation formula takes into consideration the fact that the deduction for workers already exempts from tax an amount equal to 6% of work income (to a maximum of \$18 666.67 in 2015).

□ New calculation terms for the tax credit

An individual who is resident in Québec at the end of a particular taxation year subsequent to 2015 or, if the individual dies in the year, on the date of his or her death can deduct, in calculating his or her tax otherwise payable for the year on account of the tax credit for experienced workers, an amount equal to the amount determined using the following formula:

$$[A \times B \times (1 - C)] - 0.05 (D - E)$$

For the purposes of this formula:

- the letter A represents the rate applicable for the particular taxation year to the first taxable income bracket of the personal income tax table;⁵
- the letter B represents:
 - where the particular taxation year is 2016:
 - if the individual has reached 66 before the end of the particular year or the date of his or her death, the amount by which the individual's eligible work income for the year exceeds \$5 000, to a maximum of \$6 000,
 - if the individual turns 65 by the end of the particular year or by the date of his or her death, the aggregate of the following amounts, to a maximum of \$6 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was under age 65 exceeds \$5 000, to a maximum of \$4 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 65 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which he or she was under age 65,
 - if the individual 64 turns by the end of the particular year or by the date of his or her death, the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 64 exceeds \$5 000, to a maximum of \$4 000,
 - in all other case, zero,
 - where the particular taxation year is 2017:
 - if the individual has reached 66 before the end of the particular year or the date of his or her death, the amount by which the individual's eligible work income for the year exceeds \$5 000, to a maximum of \$8 000,

5 Currently, the rate applicable to this bracket is 16%.

- if the individual turns 65 by the end of the particular year or by the date of his or her death, the aggregate of the following amounts, to a maximum of \$8 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was under age 65 exceeds \$5 000, to a maximum of \$6 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 65 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which he or she was under age 65,
 - if the individual turns 64 by the end of the particular year or by the date of his or her death, the aggregate of the following amounts, to a maximum of \$6 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was under age 64 exceeds \$5 000, to a maximum of \$4 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 64 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which he or she was under age 64,
 - if the individual turns 63 by the end of the particular year or by the date of his or her death, the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 63 exceeds \$5 000, to a maximum of \$4 000,
 - in all other case, zero,
- where the particular taxation year is a year subsequent to 2017:
- if the individual has reached 66 before the end of the particular year or the date of his or her death, the amount by which the individual's eligible work income for the year exceeds \$5 000, to a maximum of \$10 000,
 - if the individual turns 65 by the end of the particular year or by the date of his or her death, the aggregate of the following amounts, to a maximum of \$10 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was under age 65 exceeds \$5 000, to a maximum of \$8 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 65 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which he or she was under age 65,

- if the individual turns 64 by the end of the particular year or by the date of his or her death, the aggregate of the following amounts, to a maximum of \$8 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was under age 64 exceeds \$5 000, to a maximum of \$6 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 64 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which he or she was under age 64,
 - if the individual turns 63 by the end of the particular year or by the date of his or her death, the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 63 exceeds \$5 000, to a maximum of \$6 000,
 - in all other cases, zero;
- the letter C represents the rate used for the particular taxation year for the purposes of calculating the deduction for workers;⁶
 - the letter D represents the individual's eligible work income for the particular taxation year;
 - the letter E represents the applicable reduction threshold for the particular taxation year for the purposes of calculating the tax credit for a person living alone, for age and for retirement income.⁷

However, where an individual has reached 65 before the end of 2015 (an individual born before January 1, 1951), the amount of the tax credit the individual may claim for the particular taxation year cannot be less than the amount determined using the following formula:

$$\begin{array}{l}
 \text{The rate applicable for the} \\
 \text{year to the first taxable} \\
 \text{income bracket of the} \\
 \text{personal income tax table}
 \end{array}
 \times
 \begin{array}{l}
 \$4\ 000 \text{ or the amount by which} \\
 \text{the individual's eligible work} \\
 \text{income for the year exceeds} \\
 \$5\ 000, \text{ whichever is lower}
 \end{array}
 \times
 \begin{array}{l}
 \text{The amount by which 1 exceeds} \\
 \text{the rate used for the year for the} \\
 \text{purposes of calculating the} \\
 \text{deduction for workers}
 \end{array}$$

□ Application terms in case of bankruptcy

Under the tax legislation, where an individual becomes bankrupt during a calendar year, the individual is deemed to have two taxation years during the calendar year: the first from January 1 to the day preceding bankruptcy (the pre-bankruptcy taxation year) and the second from the day of bankruptcy to December 31 (the post-bankruptcy taxation year).

⁶ Currently, the rate used is 6%.

⁷ For 2015, the threshold is \$33 145. As with the main parameters of the personal income tax system, this threshold is automatically indexed each year.

For the purposes of calculating the tax credit for experienced workers for the pre-bankruptcy taxation year, each of the amounts representing the maximum amount of eligible work income that would otherwise have been applicable (i.e. \$4 000, \$6 000, \$8 000 or \$10 000) must be replaced by an amount equal to the proportion of that maximum amount represented by the ratio between the number of days in the pre-bankruptcy taxation year and the number of days in the calendar year. Likewise, the reduction threshold that would otherwise have been applicable must be replaced by an amount equal to the proportion of that threshold represented by the ratio between the number of days in the pre-bankruptcy taxation year and the number of days in the calendar year.

As for the amount of the tax credit for experienced workers that may be deducted by an individual for the post-bankruptcy taxation year, it must be determined according to the following rules:

- each of the amounts representing the maximum amount of eligible work income that would otherwise have been applicable must be replaced by an amount equal to the proportion of that maximum amount represented by the ratio between the number of days in the post-bankruptcy taxation year and the number of days in the calendar year;
- the amount of \$5 000 used for the purposes of calculating the eligible work income bracket must be replaced by an amount equal to the amount by which \$5 000 exceeds the individual's eligible work income for the pre-bankruptcy taxation year;
- the reduction threshold that would otherwise have been applicable must be replaced by an amount equal to the proportion of that threshold represented by the ratio between the number of days in the post-bankruptcy taxation year and the number of days in the calendar year.

In addition, where an individual turns 63 during a calendar year subsequent to 2016 in which the individual becomes bankrupt, only the days included in the pre-bankruptcy, post-bankruptcy and calendar years in which he or she is 63 years of age are to be taken into consideration in determining the ratio to be applied in respect of the maximum amount of the eligible work income and the reduction threshold.

□ Integrity rules

Currently, it is stipulated that an individual cannot include, in calculating his or her eligible work income for a particular taxation year, an amount deducted by the individual in calculating his or her taxable income for the year⁸ or an amount included in calculating his or her income for the year from a prior office or employment, where each of the amounts constituting the income represents the value of a benefit the individual receives or enjoys in the year because of that office or employment.

To maintain the integrity of this measure, the list of excluded amounts will henceforth include, as of taxation year 2016, any amount that an individual includes in calculating his or her income for the year from an office or employment with a particular employer where the individual is not dealing at arm's length with the employer or, if the employer is a partnership, with a member of the partnership.

1.3 Introduction of a tax shield

The personal income tax system includes a series of measures designed to assist low- and middle-income households. To identify such households, the notion of family income—i.e. an individual's income and, where applicable, the income of the individual's spouse—is often invoked, since this notion provides a good picture of the aggregate income received by a household during a year.

However, the use of this indicator may reduce the incentive for certain persons to work more, since any increase in their family income could lead to a reduction, or even the loss, of their tax benefits.

Thus, to render work effort more appealing, a new refundable tax credit, called the "tax shield," will be implemented as of taxation year 2016.

The purpose of the tax shield is to offset, further to an increase in work income, a part of the loss of the socio-fiscal transfers designed specifically to incentivize work, i.e. the refundable tax credit attributing a work premium—the general work premium or the adapted work premium for persons with severely limited capacity for employment—and the refundable tax credit for childcare expenses.

To take advantage of the tax shield for a particular taxation year, an individual must be resident in Québec at the end of December 31 of the year and apply for it in the income tax return that the individual must file for the year, or would have to file if he or she had tax payable for the year.

8 For example, an individual may not include, in calculating his or her eligible work income for a year, an amount attributable to the portion of work income he or she deducted in calculating his or her taxable income for the year due to the fact that the income was situated on a reserve or premises, was exempt from tax under a tax agreement, conferred entitlement to a tax holiday for specialized foreign workers (researchers, experts, professors, etc.) or was related to the exercise of an option to purchase securities.

❑ Determination of the tax credit

The amount of the refundable tax credit to which an individual will be entitled for a particular taxation year is equal to the amount determined using the following formula:

$$(A - B) + (C - D)$$

In this formula:

- the letter A represents the amount that would be determined for the year regarding the individual and the individual's eligible spouse for the year on account of the refundable tax credit attributing a work premium, if the individual's total income for the year corresponded to his or her total modified income for the year;
- the letter B represents the aggregate, for the year, of the amount determined on account of the refundable tax credit attributing a work premium regarding the individual and, where applicable, the same tax credit determined regarding the individual's eligible spouse for the year;
- the letter C represents the amount that would be determined for the year regarding the individual and the individual's eligible spouse for the year on account of the refundable tax credit for childcare expenses, if the individual's family income for the year corresponded to his or her modified family income for the year;
- the letter D represents the aggregate, for the year, of the amount determined on account of the refundable tax credit for childcare expenses regarding the individual and, where applicable, the same tax credit determined regarding the individual's eligible spouse for the year.

■ Determination of total modified income

For the purposes of the letter A, the individual's total modified income for the particular year will be equal to the amount by which the individual's total income for the year for the purposes of calculating the refundable tax credit attributing a work premium exceeds 75% of the lower of the following amounts:

- an amount equal to the amount by which the individual's total income for the year for the purposes of the tax credit exceeds the aggregate, for the preceding year, of the individual's income and, where applicable, the income of the individual's eligible spouse for the year;
- an amount equal to the total of the following amounts:
 - \$2 500 or the amount by which the individual's eligible work income for the year exceeds his or her eligible work income for the preceding year, whichever is lower,
 - \$2 500 \$ or the amount by which the eligible work income for the year of the individual's eligible spouse exceeds his or her eligible work income for the preceding year, whichever is lower.

For the purposes of determining the individual's total modified income for the particular year, certain presumptions will be established to take into account the fact that an individual who, at the end of a year or immediately after his or her death, is not resident in Québec or is confined to a prison or similar institution⁹ and was so confined during the year for one or more periods totalling more than six months may not claim the refundable tax credit attributing a work premium.

■ **Individual's total income for the year**

The individual's total income for the year will be deemed equal to the total income of his or her eligible spouse for the year if, at the end of December 31 of the year, the individual is confined to a prison or similar institution and was so confined during the year for one or more periods totalling more than six months.

■ **Eligible work income for the year**

The eligible work income of the individual or the individual's eligible spouse for the year, as applicable, will be deemed equal to zero if, at the end of December 31 of the year or, where the person died during the year, immediately after his or her death:

- he or she is not resident in Québec; or
- he or she is confined to a prison or similar institution and was so confined during the year for one or more periods totalling more than six months.

■ **Income for the preceding year**

The individual's income for the year preceding the particular year or, as applicable, that of the individual's eligible spouse for the year will be deemed equal to zero if, at the end of December 31 of the year preceding the particular year or, where the person died before that date, immediately before his or her death:

- he or she is not resident in Québec; or
- he or she is confined to a prison or similar institution and was so confined during the year for one or more periods totalling more than six months.

■ **Determination of modified family income**

For the purposes of the letter C, the individual's modified family income for the particular year will be equal to the amount by which the individual's family income that was taken into consideration, for the year, for the purposes of calculating the refundable tax credit for childcare expense exceeds 75% of the lower of the following amounts:

- an amount equal to the amount by which the individual's family income for the year for the purposes of the tax credit exceeds the aggregate, for the preceding year, of the individual's income and, where applicable, that of his or her eligible spouse for the year;

9 To that end, a person who enjoys a temporary leave of absence from a prison or similar institution to which he or she is confined is deemed to be confined to that prison or similar institution for each day during which the person enjoys such leave.

- an amount equal to the total of the following amounts:
 - \$2 500 or the amount by which the individual's eligible work income for the year exceeds his or her eligible work income for the preceding year, whichever is lower,
 - \$2 500 or the amount by which the eligible work income for the year of the individual's eligible spouse exceeds his or her eligible work income for the preceding year.

■ Eligible work income

An individual's eligible work income for a particular year means the aggregate of the following amounts:

- the wages, salaries and other remunerations, including gratuities,¹⁰ that the individual included in calculating his or her income for the year from any office or employment, other than amounts included in calculating his or her income for the year from a prior office or employment, where each of those amounts represents the value of a benefit that the individual receives or enjoys in the year because of that office or employment;
- the amount by which the individual's income for the year from any business he or she carries on either alone or as a partner actively engaged in the business exceeds the aggregate of his or her losses for the year from such businesses;
- an amount included in the calculation of the individual's income for the year under the *Wage Earner Protection Program Act*¹¹ regarding wages within the meaning of that Act;
- an amount included in calculating the individual's income for the year on account of the income supplement received under a project that is sponsored by a government or government agency in Canada and is aimed at encouraging an individual either to obtain or keep a job, or to carry on a business, alone or as a partner actively engaged in the business;
- an amount included in calculating the individual's income for the year on account of a grant made to carry on research or any similar work.

For greater clarity, to determine an individual's eligible work income for a particular year, the presumption according to which an individual who becomes bankrupt during calendar year is deemed to have two taxation years during the calendar year will not apply.

■ Eligible spouse

The eligible spouse of an individual for a particular taxation year 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 non-refundable tax credits.

10 This expression includes both attributed tips and tips that are reported to the employer.

11 S.C. 2005, c. 47.

In general, for the purposes of the transfer, the eligible spouse of an individual for a particular year is the person who is the individual's spouse at the end of the year and who, at that time, is not living separate and apart from the individual or, where the individual does not have a spouse at the end of the year, the last person who was the individual's spouse during the year, if that person died during the year and, at the time of death, was the individual's spouse and was not living separate and apart from the individual.

For greater clarity, a person is not considered to be living separate and apart from an individual at a particular time unless the person has been living separate and apart from the individual at that time, because of a breakdown of their union, for a period of at least 90 days that includes that time.

☐ Sharing of the tax credit

Where, for a particular taxation year, the tax shield advantage is claimed by an individual and by the individual's eligible spouse for the year, the amount of the tax credit that would otherwise be determined for the year regarding each of those individuals must be reduced by one half.

1.4 Increase in the eligibility age for the tax credit with respect to age

Currently, the tax system grants every low- or middle-income individual a non-refundable tax credit calculated based on an amount of \$2 460¹² if the individual has reached 65.

This amount with respect to age is added to the amount for retirement income and the amount for a person living alone, as well as the corresponding amounts, where applicable, that the individual's spouse can claim, and the aggregate of those amounts is subject to a single reduction based on household income.

The rate of the reduction is 15% for each dollar of the individual's family income exceeding, in 2015, an amount of \$33 145. The aggregate of the amounts so reduced is converted, at the rate of 20%, to a non-refundable tax credit that can be shared between the spouses.

As of taxation year 2016, the eligibility age for the amount with respect to age will gradually be raised until it reaches a minimum age of 70 for any taxation year after 2019. The following table illustrates the change.

TABLE A.3

Illustration of the gradual rise in the eligibility age for the tax credit with respect to age

	2015	2016	2017	2018	2019	2020
Eligibility age for the tax credit	65	66	67	68	69	70

12 This amount is automatically indexed each year.

1.5 Review of the operating terms of the solidarity tax credit

Designed to take into account the impact of the costs relating to the Québec sales tax (QST) and housing, while recognizing that people who live in northern villages must bear a higher cost of living than elsewhere, the solidarity tax credit is paid on a monthly basis so that the tax assistance, which is intended for low- or middle-income households, is tied as closely as possible to the needs it seeks to fulfil.

In many ways, the solidarity tax credit differs from the other refundable tax credits paid by Revenu Québec. It is characterized in particular by the fact that it must be claimed for a future period and that many subsequent events, e.g. births, unions, separations or moving, require a multitude of applications to be re-evaluated each month.

The tax credit being determined on a monthly basis, its proper administration requires that eligible individuals notify Revenu Québec, before the end of the month following the month in which the change occurred, of any change of situation that could change the amount receivable.

For example, an individual is currently required to notify Revenu Québec if the individual and the individual's spouse have lived separate and apart for a period of at least 90 days because of a breakdown of their union, the individual becomes the cohabiting spouse of a person, the individual begins or ceases living in a northern village, or the individual moves to a dwelling that is not an eligible dwelling.

However, despite all the efforts by Revenu Québec since the introduction of the tax credit in July 2011, integrated management on a monthly basis of all the parameters of this measure still poses an immense challenge, since it depends on the receipt and the accuracy of various information.

The observations in this respect by the Auditor General of Québec, in the report tabled before the National Assembly on November 26, 2014,¹³ require that measures be taken to improve the management of the tax credit and facilitate its application for both taxpayers and the tax administration.

Also, while preserving the level of tax assistance granted by each of the components of the solidarity tax credit, several of its operating terms will be modified, so that the tax credit will be determined annually rather than monthly, based on the information contained in the tax return.

The amount determined in regard to a reference year will continue to be paid as of July in the following year. However, depending on the value determined, the tax credit will be paid on a monthly, quarterly or annual basis.

13 AUDITOR GENERAL OF QUÉBEC, *Rapport du Vérificateur général du Québec à l'Assemblée nationale pour l'année 2014-2015: vérification de l'optimisation des ressources, automne 2014*, chapter 2.

□ **General eligibility conditions**

To claim a payment on account of the solidarity tax credit for any payment period beginning after June 2016, an eligible individual must apply in the tax return he or she must file for the reference year attributable to that period or would have to file if he or she had tax payable for that year. The application must be made no later than December 31 of the fourth year following the reference year.

Also, where an eligible individual ordinarily lives with another eligible individual who is his or her cohabiting spouse at the end of a reference year, only one of them may submit an application to receive the tax credit.

■ **Reference year**

The reference year attributable to a payment period beginning in July of a particular calendar year and ending in June of the following calendar year means the taxation year ended on December 31 of the calendar year preceding the particular calendar year.

■ **Cohabiting spouse**

For the purposes of the solidarity tax credit, a cohabiting spouse is a person who, at a particular time, is the spouse of an individual from whom he or she is not living separate and apart at that time. In this respect, a person is not considered to be living separate and apart from an individual at a particular time unless the person has been living separate and apart from the individual at that time, because of the breakdown of their union, for a period of at least 90 days that includes that time.

For greater clarity, the currently established presumptions whereby, for the purposes of the tax credit, an individual has only one cohabiting spouse and is the cohabiting spouse of only that person will be maintained.

■ **Eligible individual**

An eligible individual for a particular payment period will mean an individual who, at the end of the reference year, is either 18 years old or over, an emancipated minor, the spouse of another individual or the father or mother of a child with whom he or she resides, and meets the following conditions:

- the individual is resident in Québec or, if the individual is the cohabiting spouse of a person who is deemed resident in Québec throughout the reference year—other than a person who receives a remission of tax payable for the reference year,¹⁴—he or she was resident in Québec during a prior year;
- the individual has, or the individual's cohabiting spouse has, the status of one of the following:
 - a Canadian citizen,

14 This exclusion covers a person who is exempt from tax for the reference year under subparagraph *a, b, c, d* or *f* of the first paragraph of section 96 of the *Tax Administration Act* (CQLR, chapter A-6.002).

- a permanent resident within the meaning of the *Immigration and Refugee Protection Act*,¹⁵
- a temporary resident or the holder of a temporary resident permit, within the meaning of the *Immigration and Refugee Protection Act*, resident in Canada for the preceding 18 months,
- a protected person within the meaning of the *Immigration and Refugee Protection Act*;
- the individual is not an excluded individual.

An individual who is one of the following persons is considered an excluded individual for a particular payment period:

- a person regarding whom another individual received, for the last month of the reference year, an amount on account of the refundable tax credit for child assistance, unless that person has reached the age of 18 during that month;
- at the end of the reference year, a person who is confined to a prison or similar institution¹⁶ and was so confined during that year for one or more periods totalling more than six months;
- a person who is exempt from tax under section 982 or 983 of the *Taxation Act*¹⁷ or subparagraph *a, b, c, d* or *f* of the first paragraph of section 96 of the *Tax Administration Act* for the reference year, or the cohabiting spouse of such a person.

□ Determination of the tax credit

The amount of the solidarity tax credit to which an eligible individual is entitled for a payment period is the amount determined using the following formula:

$$A + B + C - D$$

For the purposes of this formula:¹⁸

- the letter A—which determines the QST component—represents the total of the following amounts:
 - a base amount of \$278 regarding the individual,

15 S.C. 2001, c. 27, s. 2, subs. 1.

16 To that end, a person who enjoys a temporary leave of absence from a prison or similar institution to which he or she is confined is deemed to be confined to that prison or similar institution for each day during which the person enjoys such leave.

17 CQLR, chapter I-3.

18 Each of the amounts expressed in dollars that are indicated in this formula will be indexed for the payment period beginning in July 2016 and ending in June 2017 at 1.5 times the index that will be applicable for taxation year 2016 to the indexation of the main parameters of the personal income tax system. For any payment period beginning after June 2017, the index used will correspond to that used to index the main parameters of the personal income tax system for the taxation year in which the payment period begins.

- an amount of \$278 regarding a person who was the cohabiting spouse of the individual at the end of the reference year if, at that time, the person was resident in Québec, ordinarily lived with the individual and was not confined to a prison or similar institution¹⁹ or, if the person was so confined, the total number of days of confinement in the year did not exceed 183 and he or she could not reasonably be expected to remain there throughout the following year,
- an amount of \$133 if, throughout the reference year, the individual ordinarily lived in a self-contained domestic establishment in which no person other than the individual or a person under age 18 ordinarily lived;
- the letter B—which determines the component related to the individual's eligible dwelling if the individual or the individual's cohabiting spouse at the end of the reference year with whom he or she ordinarily lived at that time was the owner, tenant or subtenant of the eligible dwelling—represents the total of the following amounts:
 - an amount of \$539 if, at the end of the reference year, the individual lived in an eligible dwelling of which he or she was the owner, tenant or subtenant and, at that time, neither his or her cohabiting spouse, nor any other eligible individual who was the owner, tenant or subtenant of the dwelling with him or her, ordinarily lived there,
 - if, at the end of the reference year, the individual ordinarily lived with his or her cohabiting spouse in an eligible dwelling of which the individual or the individual's cohabiting spouse was the owner, tenant or subtenant:
 - an amount of \$654 if, at the end of the reference year, no other eligible individual who was the owner, tenant or subtenant of the eligible dwelling ordinarily lived in it,
 - in all other cases, an amount equal to that obtained after dividing \$654 by the number of persons who ordinarily lived in the eligible dwelling at the end of the reference year and who were, at that time, owners, tenants or subtenants of it, or an amount equal to twice the amount so obtained if the individual and the individual's cohabiting spouse were both owners, tenants or subtenants of the eligible dwelling,
 - where the individual is entitled to an amount for housing, an amount of \$115 for each minor child with whom he or she ordinarily lived at the end of the reference year and regarding whom the individual or the individual's cohabiting spouse with whom the individual ordinarily lived at that time received, for the last month of the reference year, an amount on account of the refundable tax credit for child assistance, or an amount equal to 50% of the amount attributed for the child, if the amount received regarding the child on account of the refundable tax credit for child assistance was determined on the basis of the rules applicable to joint custody;

19 See note 16.

- the letter C—which determines the component related to individuals living in a northern village—represents the total of the following amounts if, at the end of the reference year, the individual ordinarily lives in a territory established as a northern village municipality pursuant to the *Act respecting Northern villages and the Kativik Regional Government*²⁰ where his or her principal place of residence is located:
 - an amount of \$1 637 regarding the individual,
 - an amount of \$1 637 regarding a person who was the individual's cohabiting spouse at the end of the reference year if, at that time, the person met the following conditions:
 - the person ordinarily lived in the territory with the individual,
 - the person's principal place of residence was located in the territory,
 - the person was not confined to a prison or similar institution²¹ or, if the person was so confined, the total number of days of confinement in the year did not exceed 183 and he or she could not reasonably be expected to remain there throughout the following year,
 - an amount of \$354 for each minor child who, at the end of the reference year, had his or her principal place of residence in the territory, ordinarily lived with the individual and regarding whom the individual or the individual's cohabiting spouse with whom he or she ordinarily lived at that time received, for the last month of the reference year, an amount on account of the refundable tax credit for child assistance, or an amount equal to 50% of the amount attributed for the child, if the amount received regarding the child on account of the refundable tax credit for child assistance was determined on the basis of the rules applicable to joint custody;
- the letter D represents the amount determined using the following formula:

$$E \times (F - G)$$
 in which:
 - the letter E, which represents the applicable reduction rate, is equal to 6%, unless, for the payment period, the individual was entitled to only one of the three components of the solidarity tax credit, in which case it is equal to 3%,
 - the letter F represents the individual's family income for the reference year,
 - the letter G, which represents the reduction threshold applicable for the payment period, is equal to \$33 145.

20 The municipalities constituted in accordance with the *Act respecting Northern villages and the Kativik Regional Government* (CQLR, chapter V-6.1) are the northern villages of Akulivik, Aupaluk, Inukjuak, Ivujivik, Kangiqsualujjuaq, Kangiqsujuaq, Kangirsuk, Kuujjuaq, Kuujjuarapik, Puvirnituq, Quaqaq, Salluit, Tasiujaq and Umiujaq.

21 See note 16.

However, the amount determined on account of the solidarity tax credit for a particular payment period regarding an eligible individual cannot be less than the amount that would be determined regarding the individual if, for the payment period, the individual was entitled only to the QST component.

□ Application terms of the housing component

Under the *Taxation Act*, for the purposes of the housing component of the solidarity tax credit, the eligible dwelling of an individual means a dwelling located in Québec in which the individual ordinarily lives and which is the individual's principal place of residence, excluding:

- low-rental housing within the meaning of article 1984 of the *Civil Code of Québec*;²²
- a dwelling located in a facility maintained by a public or private institution under agreement contemplated by the *Act respecting health services and social services*²³ that operates a hospital centre, a residential and long-term care centre or a rehabilitation centre contemplated by that Act;
- a dwelling located in a facility maintained by a hospital centre or a reception centre that is a public institution for the purposes of the application of the *Act respecting health services and social services for Cree Native persons*²⁴ or that made a contract or an agreement under section 176 or 177 of that Act;
- a dwelling located in a building or a residential facility where the services of an intermediate resource or a family-type resource within the meaning of the *Act respecting health services and social services*, or of a foster family within the meaning of the *Act respecting health services and social services for Cree Native persons*, are offered;
- a dwelling for which an amount is paid in discharge of rent under the *National Housing Act*;²⁵
- a room situated in the principal residence of the lessor, if fewer than three rooms are rented or offered for rent and if the room has neither a separate entrance from the outside nor sanitary facilities separate from those used by the lessor;
- a room situated in a hotel establishment or in a rooming house that is leased or subleased for a period of less than 60 consecutive days.

22 A dwelling situated in low-rental housing owned or administered by the Société d'habitation du Québec (SHQ) or by a legal person whose operating expenses are met, in whole or in part, by a subsidy from the SHQ, or a dwelling which is not so situated but whose rent is fixed by by-law of the SHQ is a dwelling in low-rental housing. A dwelling for which the SHQ agrees to pay an amount toward the rent is also a dwelling in low-rental housing.

23 CQLR, chapter S-4.2.

24 CQLR, chapter S-5.

25 R.S.C. 1985, c. N-11.

Rules are also prescribed to ensure that an amount on account of the housing component can be granted to an eligible individual who is not the owner, tenant or subtenant of the eligible dwelling in which the individual lives, where the individual's spouse would be entitled to an amount regarding the dwelling if he or she were not confined to a prison or similar institution or housed in a facility of the health and social services network, or where one of the individual's minor children is the owner of the dwelling.²⁶

Currently, an individual is not required to prove that he or she is the owner, tenant or subtenant of an eligible dwelling to claim the housing component. The absence of such proof is not unrelated to the fact that the Auditor General of Québec has detected certain irregularities and has recommended that Revenu Québec introduce additional means of control for the management of the solidarity tax credit.²⁷

Also, to ensure better management of the housing component, an individual will be required, in order to claim that component, to prove that he or she is, alone or jointly, the owner, tenant or subtenant of an eligible dwelling.

To that end, individuals who are owners of an eligible dwelling will be required to indicate in their application for the solidarity tax credit the record number or identification number appearing on their municipal tax account for the reference year and, if applicable, the number of co-owners of the eligible dwelling.

For their part, individuals who are tenants or subtenants of an eligible dwelling will be required to indicate the serial number appearing on the information return that the owner of the building in which their dwelling is located transmitted to them for the reference year and, if applicable, the number of persons who are also tenants or subtenants of the dwelling.

For greater clarity, to claim the housing component of the solidarity tax credit, individuals will not be required to enclose, with their tax return, a copy of their municipal tax account or of the information return transmitted to them by the owner, as applicable. However, taxpayers will be required to keep these documents for the purposes of subsequent audit by Revenu Québec.

❑ Determination of family income

The family income of an individual that must be taken into account for purposes of determining the solidarity tax credit for a particular payment period will be the aggregate of the individual's income for the reference year attributable to the payment period and of the income, for that year, of the individual's cohabiting spouse at the end of the reference year.

26 For greater clarity, these rules will be adapted to take into account the fact that status as an owner, tenant or subtenant must be evaluated, for any payment period beginning after June 2016, at the end of the reference year.

27 See note 13.

■ Recipient of last resort financial assistance

To take better account of the needs of last resort financial assistance recipients, where an individual is, for the last month of a reference year, a recipient under the Social Assistance Program, the Social Solidarity Program or the Youth Alternative Program provided for in the *Individual and Family Assistance Act*,²⁸ the individual's income for the reference year will be deemed to be equal to zero.

■ Individuals who become bankrupt during a year

Where an individual becomes bankrupt during a particular calendar year, the individual's income for the reference year will correspond to his or her income determined for the taxation year deemed to begin on the date of the bankruptcy.

■ Non-resident and resident for part of the year

Where an individual does not reside in Canada throughout a particular reference year, the individual's income for that year will be deemed to be equal to the income that would have been determined in his or her regard had he or she resided in Québec and Canada throughout the year.

□ Payment of the tax credit

■ Payment terms

To eliminate the substantial administrative costs associated with payment by cheque, amounts payable on account of the solidarity tax credit will continue, except where circumstances justify issuing and sending cheques, to be paid by direct deposit in a bank account held at a financial institution whose name appears in Part I of Appendix I to Rule D4 – Institution Numbers and Clearing Agency/Representative Arrangements of the *Automated Clearing Settlement System Rules Manual* of the Canadian Payments Association.

Where the amount determined for a payment period is \$800 or more, it will be paid in twelve equal payments within the first five days of each month included in the payment period.

Payments will instead be quarterly—within the first five days of July, October, January and April—where the amount determined for a payment period is more than \$240 but less than \$800.

In all cases where the amount determined for a payment period is \$240 or less, it will be paid in a single payment within the first five days of July, unless the amount determined is less than \$2.

28 CQLR, chapter A-13.1.1.

■ Cessation of payments

■ Death of the eligible individual

Payments of the solidarity tax credit determined regarding an eligible individual will cease as of the month following the month of the individual's death.

However, the person who was the eligible individual's cohabiting spouse at the end of the reference year can, if he or she so applies and is also an eligible individual, receive the payments the individual would have received but for his or her death.

■ Confinement to a prison or similar establishment

An eligible individual will not be entitled to receive the payment for any month included in a payment period if, immediately before the beginning of that month, the individual was confined to a prison or similar establishment.²⁹

However, the person who was the eligible individual's cohabiting spouse at the end of the reference year can, if he or she so applies and is also an eligible individual, receive the payments the individual would have received but for his or her confinement.

■ Cessation of residence in Québec

Payments of the solidarity tax credit determined regarding an eligible individual will cease as of the month following the month during which the individual ceases to be resident in Québec.

■ Exceptional circumstances

Under exceptional circumstances, the Minister of Revenue may, if convinced that it is in a household's interest, pay an amount on account of the solidarity tax credit to which an eligible individual is entitled, to the person who was the individual's cohabiting spouse at the end of the reference year, provided that person is also an eligible individual.

■ Suspension of payments

Revenu Québec may require any individual who has claimed the solidarity tax credit to provide information or documents to it so that it can verify whether the individual is entitled to the tax credit or verify the amount to which he or she is entitled.

Where an individual fails to provide the required information or documents within 45 days following the request for them to be submitted, the payments of the solidarity tax credit determined regarding the individual may be suspended, until the information or documents are provided.

Payments of the tax credit may also be suspended while an investigation into an individual's eligibility for such tax assistance is ongoing.

29 See note 16.

■ Application of tax credit payments to payment of a debt

Under the *Tax Administration Act*, where a person who is entitled to a refund pursuant to the application of a tax law also owes an amount under such a law or is on the point of owing such an amount, the refund may be applied to payment of the person's debt, up to the amount of the debt. This refund may also be applied to the payment of any amount the person owes the government under various other laws.³⁰

Currently, only 50% of the amount determined on account of the solidarity tax credit for a particular month, regarding an individual who is a recipient, for that month, of last resort financial assistance³¹ may be allocated to the payment of a debt of the individual to the government, provided his or her status as a recipient was brought to the attention of Revenu Québec at least 21 days before the stipulated payment date for the amount. Likewise, only 50% of the amount determined on account of the solidarity tax credit for a particular month, regarding an individual, may be applied to the payment of a debt the individual owes to the government if his or her family income is, according to the last notice of determination issued to him or her, equal to or less than \$20 210.³²

These relaxed rules for application of refunds will continue to apply to each of the monthly, quarterly or annual payments of the solidarity tax credit determined regarding an eligible individual for any payment period beginning after June 2016.

■ Solidary liability

If, during a payment period, Revenu Québec pays an individual an amount on account of the solidarity tax credit or applies to another of the individual's obligations an amount greater than what should have been paid or applied, the individual and the person who, at the end of the reference year, was his or her cohabiting spouse with whom he or she ordinarily lived will be solidarily liable for payment of the excess amount.

■ Determination of interest

■ Interest earned

Where, for a particular payment period, an amount on account of the solidarity tax credit is paid to an individual or applied to another of the individual's obligations, interest will be paid to him or her on the amount for the period ending the day of that payment or application and beginning on whichever of the following dates is the latest:

- the 6th day of the month of the payment to which it is related;
- the 46th day following date of filing of the individual's tax return for the reference year attributable to the payment period;

30 For example, the *Individual and Family Assistance Act*, the *Act respecting financial assistance for education expenses* (CQLR, chapter A-13.3) and the *Act respecting the Société d'habitation du Québec* (CQLR, chapter S-8).

31 This financial assistance is granted under the *Individual and Family Assistance Act*.

32 This amount is automatically indexed each year.

- in the case of an amount determined further to an application for amendment of the individual's tax return for the reference year attributable to that period, the 46th day following date the written application for amendment was received;
- in the case of an amount determined further to an application for amendment of the tax return for the reference year attributable to that period of the individual's cohabiting spouse at the end of the reference year, the 46th day following date the written application for amendment was received.

Also, where, for a particular payment period, an amount on account of the solidarity tax credit determined regarding an eligible individual is paid to the person who was the individual's cohabiting spouse at the end of the reference year attributable to that period or is applied to another of the person's obligations, interest will be paid on the amount for the period ending the day of that payment or application and beginning on whichever of the following dates is the later:

- the 6th day of the month of the payment to which it is related;
- the 46th day following the date of receipt of the person's written application to receive payments of the tax credit.

However, no interest will be payable if the total interest calculated for a particular payment period is less than \$1.

■ **Interest owed**

Where it is determined that an individual has received, for a particular payment period, an amount greater than what the individual was entitled to, the excess amount will be deemed to represent tax payable by the individual as of the date the excess amount was determined, and the individual will be required to pay interest on the excess amount, calculated at the rate applicable to a debt owed to the State,³³ for the period running from the day the excess amount became payable until the date of payment.

To that end, where a person pays the Minister of Revenue or a financial institution all or part of the amount the person is required to pay further to a notice of determination, the date of the payment will be deemed to be the sending date of the notice of determination, if the payment is made within the deadline determined by the Minister and mentioned in the notice.

□ **Consequential amendments**

The tax system allows certain students at least 18 years old who have little or no tax payable for a particular taxation year the possibility of transferring to their parents, up to the maximum established for the year, an amount on account of the recognized parental contribution. Parents can use the amount thus transferred to reduce their income tax otherwise payable by the same amount.

33 This is the rate determined for the purposes of the first paragraph of section 28 of the *Tax Administration Act*.

Currently, the aggregate of the amounts each of which is an amount that the eligible student received on account of the solidarity tax credit regarding a particular month included in the year reduces the amount that can be transferred to the student's parents.

To take into account the new operating terms for the solidarity tax credit, the tax legislation will be amended to provide that the amount that a student can, for a particular taxation year, transfer to his or her parents on account of the recognized parental contribution must be reduced by the aggregate of the amounts that have been paid to him or her in that year on account of the solidarity tax credit.

□ Transitional period

To ensure a harmonious transition to the new operating terms for the solidarity tax credit, all the amounts that will be paid in 2016 will be determined based on the same eligibility conditions.

Thus, only an individual who is an eligible individual at the end of December 31, 2015 will be entitled to the solidarity tax credit in 2016.

More specifically, the amount of the solidarity tax credit that an individual who is an eligible individual at the end of December 31, 2015 will be entitled to receive for each of the months included in the period from January 2016 to June 2016 is the amount determined using the following formula:

$$1/12 (A + B + C - D)$$

For the purposes of this formula:³⁴

- the letter A—which determines the QST component—represents the total of the following amounts:
 - a base amount of \$278 regarding the individual,
 - an amount of \$278 regarding a person who was the cohabiting spouse of the individual at the end of December 31, 2015 if, at that time, the person was resident in Québec, ordinarily lived with the individual and was not confined to a prison or similar institution³⁵ or, if the person was so confined, the total number of days of confinement in the year did not exceed 183 and he or she could not reasonably be expected to remain there throughout the following year,
 - an amount of \$133 if, throughout 2015, the individual ordinarily lived in a self-contained domestic establishment in which no person other than the individual or a person under age 18 ordinarily lived;

34 Each of the amounts expressed in dollars that are indicated in this formula will be indexed on January 1, 2016 in accordance with rules currently applicable.

35 See note 16.

- the letter B—which determines the housing component—represents the total of the following amounts:
 - an amount of \$539 if, at the end of December 31, 2015, the individual lived in an eligible dwelling of which he or she was the owner, tenant or subtenant and, at that time, neither his or her cohabiting spouse, nor any other eligible individual who was the owner, tenant or subtenant of the dwelling with him or her, ordinarily lived there,
 - if, at the end of December 31, 2015, the individual ordinarily lived with his or her cohabiting spouse in an eligible dwelling of which the individual or the individual's cohabiting spouse was the owner, tenant or subtenant:
 - an amount of \$654 if, at the end of December 31, 2015, no other eligible individual who was the owner, tenant or subtenant of the eligible dwelling ordinarily lived in it,
 - in all other cases, an amount equal to that obtained after dividing \$654 by the number of persons who ordinarily lived in the eligible dwelling at the end of December 31, 2015 and who were, at that time, owners, tenants or subtenants of it, or an amount equal to twice the amount so obtained if the individual and the individual's cohabiting spouse were both owners, tenants or subtenants of the eligible dwelling,
 - where the individual is entitled to an amount for housing, an amount of \$115 for each minor child with whom he or she ordinarily lived at the end of December 31, 2015 and regarding whom the individual or the individual's cohabiting spouse with whom the individual ordinarily lived at that time received, for December 2015, an amount on account of the refundable tax credit for child assistance, or an amount equal to 50% of the amount attributed for the child, if the amount received regarding the child on account of the refundable tax credit for child assistance was determined on the basis of the rules applicable to joint custody;
- the letter C—which determines the component related to individuals living in a northern village—represents the total of the following amounts if, at the end of December 31, 2015, the individual ordinarily lives in a territory established as a northern village municipality pursuant to the *Act respecting Northern villages and the Kativik Regional Government*³⁶ where his or her principal place of residence is located:
 - an amount of \$1 637 regarding the individual,
 - an amount of \$1 637 regarding a person who was the individual's cohabiting spouse at the end of December 31, 2015 if, at that time, the person met the following conditions:
 - the person ordinarily lived in the territory with the individual,
 - the person's principal place of residence was located in the territory,

36 See note 20.

- the person was not confined to a prison or similar institution³⁷ or, if the person was so confined, the total number of days of confinement in the year did not exceed 183 and he or she could not reasonably be expected to remain there throughout 2016,
- an amount of \$354 for each minor child who, at the end of December 31, 2015, had his or her principal place of residence in the territory, ordinarily lived with the individual and regarding whom the individual or the individual's cohabiting spouse with whom he or she ordinarily lived at that time received, for December 2015, an amount on account of the refundable tax credit for child assistance, or an amount equal to 50% of the amount attributed for the child, if the amount received regarding the child on account of the refundable tax credit for child assistance was determined on the basis of the rules applicable to joint custody;
- the letter D represents the amount determined using the following formula:

$$E \times (F - G)$$
 in which:
 - the letter E, which represents the applicable reduction rate, is equal to 6%, unless the individual was entitled to only one of the three components of the solidarity tax credit, in which case it is equal to 3%,
 - the letter F represents the individual's family income for 2014,
 - the letter G, which represents the reduction threshold applicable for the payment period, is equal to \$33 145.

However, the amount determined on account of the solidarity tax credit for a particular month regarding an individual cannot be less than the amount that would be determined regarding the individual if, for that month, the individual was entitled only to the QST component.

Moreover, the rules currently stipulated to allow an eligible individual, in certain special situations,³⁸ to receive the housing component even if the individual is not the owner, tenant or subtenant of the eligible dwelling in which he or she lives will be adapted to take into account the fact that status as an owner, tenant or subtenant must be evaluated, for January to June 2016, at the end of December 31, 2015.

37 See note 16.

38 These rules may apply in a case where the individual's spouse is confined to a prison or similar institution or housed in a facility of the health and social services network, or where one of the individual's minor children is the owner of the dwelling.

❑ Filing of an information return by lessors

Any person or partnership that, on December 31 of a particular year, owns an immovable in which an eligible dwelling is located—within the meaning of that expression for the purposes of the solidarity tax credit—will be required to file an occupation record, using the prescribed form containing the prescribed information, regarding the individuals who are tenants of the dwelling at the end of December of the year and, if the person or partnership allowed the dwelling to be sublet, the individuals who are the subtenants of the dwelling at that time.

All occupation records for eligible dwellings must be transmitted to Revenu Québec no later than the last day of February of each year regarding the preceding calendar year.

Within that same deadline, two copies of the occupation record must be transmitted to each of the tenants or subtenants of the dwelling. They must be sent to the tenants' or subtenants' last known address or delivered to them in person.

1.6 New assistance program for seniors to partially offset a municipal tax increase pursuant to a new assessment roll

Since the beginning of the 2000s, there has been a generalized increase throughout Québec in the property values entered on assessment rolls. Where the percentage increase is more or less the same for all the properties of a municipality, such a situation is not, in itself, abnormal. Where problems may arise is when property values increase more rapidly in certain sectors only, resulting in tax increases that are substantially above average.

This type of situation may occur, in particular, in rural municipalities where the increase in property value varies significantly from one sector to another, as in a resort sector where there are residences near bodies of water. Because such residences are in great demand, their value is driven by market forces and can rise steeply. As a result, the property tax burden for such residences skyrockets, in contrast to that of other residences in the municipality.

For low- or middle-income retirees who have been living in such a residence for numerous years, a substantial municipal tax increase can become a serious problem.

To support seniors having to cope with such increases in their property taxes, an assistance program will be introduced as of 2016.

To that end, the *Act respecting municipal taxation*³⁹ will be amended to provide that seniors who are long-time homeowners can, provided certain conditions are met, receive a grant to partially offset the municipal taxes payable on their residence following an increase in its value if the increase significantly exceeds the average increase for certain residential immovables for the municipal territory as a whole.

39 CQLR, chapter F-2.1.

❑ Application for the grant

To receive the grant for a particular year, an individual must apply in the tax return the individual has to file for the taxation year ended immediately before the beginning of the particular year, or that the individual would have to file if he or she had tax payable for that taxation year. The application must be filed no later than December 31 of the fourth year following the particular year and must be accompanied by the prescribed form containing prescribed information.

To simplify the calculation of the amount of the grant to which individuals may be entitled for a year, municipalities will indicate, on the tax account sent for a particular fiscal year, the amount of the potential grant attributable to the increase in a unit's property value where, pursuant to a new assessment roll applicable to the fiscal year, the increase in the unit's value exceeds the average increase by 7.5%.

For greater clarity, to receive the grant for a particular year, an individual will not be required to enclose with his or her tax return a copy of the municipal tax account. However, the individual must keep it for at least six years the purposes of subsequent audit by Revenu Québec.

Moreover, if more than one individual is entitled to the grant for a particular year regarding the same assessment unit, the total of the amounts claimed by each of them for the year must not exceed the amount that would have been granted if, in the case where the individuals acquired their title of ownership at the same time, only one of them was entitled to the grant for the year and, in the opposite case, only the individual with the older title of ownership, or one of them if there are several individuals holding such a title, was entitled to the grant for the year. If there is no agreement among the individuals, the Minister of Revenue will determine the amount that each of them may claim.

❑ Eligibility conditions

An individual can receive a grant for a particular year regarding an entirely residential assessment unit consisting of only one dwelling (hereafter called a "specified assessment unit"), if the following conditions are met:

- the individual was resident in Québec at the end of December 31 of the preceding year;
- the individual turned 65 before the beginning of the year;
- at the end of December 31 of the preceding year, the individual had been the owner of the specified assessment unit for at least 15 consecutive years;⁴⁰
- the individual is a person to whom the tax account for the specified assessment unit was sent for the year;
- the specified assessment unit is the individual's principal place of residence;

40 The owner of an assessment unit is the person in whose name the particular assessment unit is registered.

— the individual's family income for the taxation year preceding the particular year does not exceed \$50 000.

■ **Property transferred to the spouse**

For the purposes of the requirement that the individual must have been the owner of a specified assessment unit for 15 years, a presumption will be established to allow the individual to take into account the years during which his or her spouse was the owner of the unit.

More specifically, where, further to an inter vivos transfer or because of death, an individual becomes the owner of a specified assessment unit that belonged to his or her spouse, the individual will be deemed to have been the owner of the unit during each of the years his or her spouse was the owner of the unit.

■ **Family income**

An individual's family income for the taxation year preceding the particular year means the aggregate of the individual's income for the taxation year, determined under Part I of the *Taxation Act*,⁴¹ and the income, likewise determined, of the person who was the individual's eligible spouse for the taxation year.

However, if an individual or the individual's eligible spouse became bankrupt during the calendar year preceding the particular year, the rule under which the bankrupt's taxation year is deemed to begin on the date of the bankruptcy and the current taxation year is deemed to end the day before that date will not apply for the purposes of determining the individual's family income.

Also, if an individual or the individual's spouse was not resident in Canada throughout the taxation year preceding the particular year, the individual's family income must be determined as if the individual or the individual's eligible spouse, as the case may be, had been resident in Québec and Canada throughout the taxation year or, if the individual's spouse died during the taxation year, throughout the period of the year before his or her death.

Moreover, for the purposes of calculating an individual's family income for the taxation year preceding a particular year, an individual's eligible spouse means the person who is his or her eligible spouse for the taxation year for the purposes of the transfer of the unused portion of non-refundable tax credits from one spouse to the other provided for by the *Taxation Act*.⁴²

In general, the eligible spouse of an individual, for a particular taxation year, is the person who is the individual's spouse at the end of the year and who, at that time, is not living separate and apart from the individual or, where the individual does not have a spouse at the end of the year, the last person who was the individual's spouse during the year, where that person died during the year and, at the time of death, was the individual's spouse and was not living separate and apart from the individual.

41 CQLR, chapter I-3.

42 This deduction is provided for in Title IX of Book V of Part I of the *Taxation Act*.

For greater clarity, a person is not considered to be living separate and apart from an individual, at a particular time, unless the person is living separate and apart from the individual, at that time, because of a breakdown of their union, for a period of at least 90 days that includes that time.

■ **Indexation of the eligibility cap**

The maximum family income that an individual can have to be eligible for a grant will be automatically indexed each year as of January 1, 2017.

As with the indexation of the main parameters of the personal income tax system, the index used will correspond to the percentage change in the overall average Québec consumer price index without alcoholic beverages and tobacco products (QCPI-WAT) for the 12-month period ending on September 30 of the year preceding the year for which maximum family income is to be indexed, compared to the average QCPI-WAT for the 12-month period that ended on September 30 of the year prior to the year preceding the year for which the amount is to be indexed.

This index will be applied, for a particular year, to the previous year's value. For greater clarity, where the result obtained after application of the index to that amount is not a multiple of 100, it will be adjusted to the nearest multiple of 100 or, if it is equidistant from two multiples of 100, to the nearest higher multiple of 100.

□ **Determination of the amount of the grant**

For any particular year to which a property assessment roll relates, the amount of the grant to which an individual is entitled regarding a specified assessment unit is the amount determined using the following formula:

$$\{ A \times [B - (C \times D)]^{43} \}^{44} + E$$

In this formula:

- the letter A represents the general property tax rate that applies to entirely residential assessment units consisting of only one dwelling for the first fiscal year to which the property assessment roll applies;
- the letter B represents the value of the specified assessment unit entered on the property assessment roll, as that roll exists on the day of its deposit;
- the letter C represents the value of the specified assessment unit entered on the property assessment roll preceding the roll covered by letter B, as that roll exists on the day preceding the day of the deposit of the role covered by letter B;
- the letter D, which represents the increased coefficient reflecting the average increase in the value of certain units entered on the property assessment roll, is equal to the amount determined using the following formula:

$$(F \div G) + 0.075$$

43 If the result of the algebraic formula [(B - (C x D))] is less than zero, it is deemed equal to zero.

44 The municipalities will indicate, on the tax account sent for a particular fiscal year, the result of the algebraic formula between braces.

in which:

- the letter F corresponds to the amount obtained by dividing the total of the values entered on lines 501, 502 and 514 of the section “VALEURS DES LOGEMENTS” of the form that is prescribed by the regulation made under paragraph 1 of section 263 of the *Act respecting municipal taxation* and is related to the summary of the property assessment roll, reflecting the state of the assessment roll on the day of its deposit, by the total dwellings entered on those lines,
- the letter G corresponds to the amount obtained by dividing the total of the values entered on lines 501, 502 and 514 of the section “VALEURS DES LOGEMENTS” of the form that is prescribed by the regulation made under paragraph 1 of section 263 of the *Act respecting municipal taxation* and is related to the summary of the property assessment roll preceding the roll covered by letter F, reflecting the state of that roll on the day preceding the day of the deposit of the roll covered by letter F, by the total dwellings entered on those lines;
- the letter E represents the amount of the grant⁴⁵ to the individual or to the person who was the individual’s spouse regarding the specified assessment unit for the last year to which the property assessment roll immediately preceding the assessment roll relates.

If the amount determined using this formula is a decimal number, the decimal part is deleted and, if the first decimal would have been a number greater than 4, the whole part is increased by 1.

For the purposes of letters D, F and G of the formula, if the result of a prescribed operation contains more than four decimals, only the first four decimals are retained and the fourth one is increased by 1 where the fifth is a number greater than 4.

■ Municipality resulting from an amalgamation

For the purposes of letter A of the formula, where the municipality resulted from an amalgamation and, under the act or order by which it was constituted, it fixes, in respect of the general property tax, rates that vary according to the territories of the municipalities having ceased to exist on amalgamation, the general property tax rate that must be used is the theoretical rate that would be fixed for all of its territory if it did not levy the general property tax at different rates.

45 For greater clarity, only an amount for which a notice of determination has been issued will be deemed to have been granted.

■ Averaging of the variation in taxable values

Where a municipality applies, regarding a property assessment roll, the measure for averaging the variation in taxable values provided for in Division IV.3 of Chapter XVIII of the *Act respecting municipal taxation*, the formula used to determine the amount of the grant an individual may receive for a particular year to which the property assessment roll relates must be replaced by the following:

- $\frac{1}{3} \{A \times [B - (C \times D)]\} + E$, where the averaging measure applies to three fiscal years and the particular year corresponds to the first fiscal year;
- $\frac{2}{3} \{A \times [B - (C \times D)]\} + E$, where the averaging measure applies to three fiscal years and the particular year corresponds to the second fiscal year;
- $\frac{1}{2} \{A \times [B - (C \times D)]\} + E$, where the averaging measure applies to only two fiscal years and the particular year corresponds to the first fiscal year.

■ Revision of an assessment roll

Where, on a date following the deposit of the property assessment roll, a modification is made reducing the taxable value of the specified assessment unit, the letter B in the grant calculation formula represents, for any particular year that begins after that date and to which the assessment roll relates, the value of the specified assessment unit entered on the property assessment roll, as the roll exists at the end of the fiscal year during which the unit's taxable value was reduced.

Where a modification affecting the taxable value of a specified assessment unit is made retroactively to the date of the coming into force of a particular property assessment roll or to the day before that date, the amount of the grant attributable to any particular year to which the roll relates must be determined or redetermined taking into account, for the purposes of letters B and C of the calculation formula, the taxable value of the unit as it has been modified. If the taxable value of the specified assessment unit is modified after the filing of a grant application that is based on the particular property assessment roll, the individual who made such application must transmit an application for revision to Revenu Québec no later than within 60 days following the day the individual was informed by the municipality of such modification.

For greater clarity, no adjustment will be made to the grant amount for any year to which a property assessment roll relates in the case of an increase in value taking effect on a date subsequent to the date of the coming into force of the roll.

2. MEASURES TO FOSTER DEVELOPMENT AND STIMULATE BUSINESS INVESTMENT

2.1 Reorganization of corporate income tax

The general corporate tax rate in Québec is 11.9%.

However, a Canadian-controlled private corporations with paid-up capital of \$10 million or less enjoy a tax rate reduction of 3.9 percentage points on the first \$500 000 of annual income—the business limit—from an eligible business,⁴⁶ which lowers the tax rate from 11.9% to 8% on the first \$500 000 of income.

In addition, Québec small and medium-sized manufacturing businesses (SMBs) can claim an additional deduction on their tax rate that will reach four percentage points as of April 1, 2015. Accordingly, the tax rate of these corporations can be reduced from 8% to 4% on their first \$500 000 of income.

The additional deduction rate applicable to a manufacturing SMB for a taxation year applies to the amount that is taxed at the reduced rate of 8% for the taxation year.

The rate of the additional deduction a manufacturing SMB may claim depends on the proportion of its activities that consist of manufacturing and processing activities.

The following table presents the tax rates under the existing rules for a corporation whose taxation year begins after March 31, 2015.

TABLE A.4

Corporate tax rates in Québec – Rules applicable prior to the tabling of the budget for a taxation year beginning after March 31, 2015 (per cent)

	Manufacturing SMB		SMB	Other corporation
	Fully eligible	Partially eligible ⁽¹⁾		
General tax rate	11.9	11.9	11.9	11.9
SMB deduction	–3.9	–3.9	–3.9	
SMB tax rate	8.0	8.0	8.0	
Additional deduction for manufacturing SMBs	–4.0	–2.4		
Tax rate for manufacturing SMBs	4.0	5.6		

(1) In this example, the SMB's proportion of manufacturing activities is 40%.

46 The \$500 000-business limit is gradually reduced for corporations with paid-up capital between \$10 million and \$15 million and becomes zero for corporations with paid-up capital of \$15 million or more.

To stimulate economic development in Québec, corporate income tax rates will be adjusted through a reduction of the general tax rate and a refocusing of the small business deduction (SBD) and the additional deduction for manufacturing SMBs on corporations in the primary and manufacturing sectors.

2.1.1 Reduction of the general tax rate

As indicated above, the general corporate tax rate is 11.9%.

The general tax rate will be gradually reduced by 0.4 percentage points from 2017 to 2020. These rate reductions will come into force on January 1 of each of these years.

More specifically, the general corporate tax rate will be reduced from the current rate of 11.9% to 11.8% in 2017, 11.7% in 2018, 11.6% in 2019 and, ultimately, 11.5% in 2020.

The following table presents the general corporate tax rate before and after this reorganization.

TABLE A.5

General corporate tax rate (per cent)

	Current	2017	2018	2019	2020
General tax rate	11.9	11.8	11.7	11.6	11.5

Note: The rate reductions will come into force on January 1 of each of the years from 2017 to 2020.

Where a corporation's taxation year does not coincide with the calendar year, the tax rate effectively applicable for that taxation year straddling two calendar years will be a weighted rate to reflect the number of days, in the taxation year, included in each of the two calendar years.

For greater clarity, a corporation's instalment payments for a taxation year that does not coincide with the calendar year must be calculated using the weighted tax rate applicable to the taxation year.

2.1.2 Consequential adjustment and refocusing of the SBD on corporations in the primary and manufacturing sectors

As indicated above, certain SMBs enjoy a tax rate reduction, the SBD, of 3.9 percentage points on up to \$500 000 of annual income from an eligible business, which lowers the tax rate from 11.9% to 8% on the first \$500 000 of income.

Changes will be made to the SBD to adjust its rate on the basis of the reduction of the general tax rate and refocus it on certain types of corporations.

Adjustment on the basis of the reduction of the general tax rate

As indicated above, the general corporate tax rate will be gradually reduced, from 2017 to 2020, from the current rate of 11.9% to a rate of 11.5%.

Despite these changes to the general tax rate, the minimum tax rate applicable to the income of small corporations will remain the same, at 8%, at all times. In practice, this minimum rate will be obtained by gradually subtracting percentage points from the rate of the SBD in step with the reduction of the general tax rate.

The following table illustrates how the minimum tax rate applicable to income eligible for the SBD will be maintained at the minimum rate of 8% before and after this reorganization.

TABLE A.6

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

	Current and 2016	2017	2018	2019	2020 and after
General tax rate	11.9	11.8	11.7	11.6	11.5
Maximum SBD rate	-3.9	-3.8	-3.7	-3.6	-3.5
Tax rate applicable to income eligible for the SBD	8.0	8.0	8.0	8.0	8.0

Note: The rate adjustments will come into force on January 1 of each of the years from 2017 to 2020.

□ Refocusing of the SBD on corporations in the primary and manufacturing sectors

Currently, corporations eligible for the SBD may obtain a tax rate reduction of 3.9 percentage points on the first \$500 000 of annual income—the business limit—from an eligible business,⁴⁷ which lowers the tax rate from 11.9% to 8% on the first \$500 000 of income.

To refocus the SBD on certain types of corporations, eligibility criteria will be added. The new eligibility criteria, applied on a case-by-case basis to each corporation, will be reflected in the SBD rate applicable to the corporation. The other parameters for calculating the SBD are unchanged.

Thus, only some of the corporations presently eligible for the SBD will be able to continue claiming the full or partial amount of the deduction.

More specifically, for a taxation year, an eligible corporation will be:

- a corporation that employs in its business throughout the year more than three full-time employees, or any other corporation associated with it provides financial, administrative, maintenance, managerial or other similar services to the corporation in the year and the corporation could reasonably be expected to require more than three full-time employees if those services had not been provided;
- a corporation in the primary or manufacturing sector.

⁴⁷ See the preceding note.

A corporation that, for a taxation year, meets the criterion concerning the minimum number of employees will, for the taxation year, be able to take advantage of the maximum SBD rate applicable for the taxation year.

However, a corporation in the primary or manufacturing sector that does not meet the eligibility criterion concerning the minimum number of employees may nevertheless claim the SBD according to its level of activity in these sectors.

The SBD rate applicable to such a corporation in the primary or manufacturing sector will therefore depend on the proportion of its activities that are in the primary sector or the manufacturing and processing sector.

■ Corporation in the primary or manufacturing sector

“Corporation in the primary or manufacturing sector,” for a particular taxation year, means a corporation at least 25% of whose activities consist of activities in the primary sector or the manufacturing and processing sector.

The labour cost will be the item considered in determining the proportion of a corporation’s activities attributable to the primary sector or the manufacturing and processing sector. More specifically, the proportion of a corporation’s activities in the primary sector or the manufacturing and processing sector will be determined by the following formula:

$$\text{Proportion of activities in the primary sector or the manufacturing and processing sector} = \frac{\text{LCPMP}}{\text{LC}}$$

Where:

- LCPMP represents the labour cost in the primary sector and the manufacturing and processing sector;
- LC corresponds to the labour cost.

Activities in the primary sector are those attributable to activities in the agriculture, forestry, fishing and hunting sector and the mining, quarrying, and oil and gas extraction sector that are grouped under codes 11 and 21 of the North American Industry Classification System (NAICS).⁴⁸ Manufacturing and processing activities are those activities that, under the federal *Income Tax Regulations*,⁴⁹ constitute qualified activities for the purposes of determining manufacturing and processing profits.

For the purposes of this formula, the LCPMP will be determined by making the necessary adaptations to broaden the definition of manufacturing and processing labour cost currently used for the purposes of the additional deduction for manufacturing SMBs so that it includes activities in the primary sector, while the definition of LC will be that currently used for the purposes of the additional deduction.

48 The description of these codes is available on the Statistics Canada website: www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVDPPage1&db=imdb&dis=2&adm=8&TVD=118464 (viewed on March 19, 2015).

49 C.R.C., c. 945.

■ Determination of the SBD rate for certain corporations in the primary and manufacturing sectors

A corporation in the primary or manufacturing sector whose proportion of activities in the primary or manufacturing and processing sector for a particular taxation year is 50% or more will be able to take advantage of the maximum SBD rate applicable for the taxation year.

Where the proportion for a particular taxation year is between 50% and 25%, the SBD rate applicable to a corporation in the primary or manufacturing sector for the taxation year will be reduced linearly. The SBD rate allowed will be equal to the rate determined by the following formula:

$$\text{SBD rate allowed} = 3.8\%^{50} \times \frac{(\text{PAPMP} - 25\%)}{25\%}$$

In this formula, PAPMP stands for the proportion of activities in the primary sector and the manufacturing and processing sector.

For example, a corporation in the primary or manufacturing sector whose proportion of activities in the primary or manufacturing and processing sector is 40% will be able to claim an additional SBD at a rate equal to 2.28%.⁵¹

■ Application date

The changes relative to the refocusing of the SBD on corporations in the primary and manufacturing sectors will apply to a taxation year beginning after December 31, 2016.

2.1.3 Extension of the additional deduction for manufacturing SMBs to SMBs in the primary and manufacturing sectors

Currently, a manufacturing SMB eligible for the SBD may obtain an additional reduction of its tax rate. The additional reduction will reach four percentage points as of April 1, 2015.

The additional deduction applicable to a manufacturing SMB for a particular taxation year applies to the amount on which the SMB is taxed at a rate reduced by the SBD for the taxation year.

Changes will be made to the additional deduction for manufacturing SMBs to extend eligibility for the additional deduction to corporations in the primary sector and modify the calculation parameters.

The additional deduction rate applicable to a corporation in the primary or manufacturing sector will therefore depend on the proportion of its activities that are in the primary sector or the manufacturing and processing sector.

50 For the purposes of the illustration, the maximum SBD rate of 3.8%, i.e. the SBD rate that will apply to the 2017 calendar year, is used in this formula.

51 $3.8\% \times [(40\% - 25\%) \div 25\%] = 2.28\%$.

❑ Extension to the primary sector

As indicated above, changes will be made to the additional deduction for manufacturing SMBs so that it becomes the additional deduction for SMBs in the primary and manufacturing sectors. The definition of corporation in the primary or manufacturing sector and the parameters for determining the rate of the additional deduction for SMBs in the primary and manufacturing sectors will be the same as those used for the purposes of the SBD.

Moreover, the current principle whereby the additional deduction applicable to a manufacturing SMB for a taxation year applies to the amount on which the SMB is taxed at a rate reduced by the SBD for the taxation year is maintained.

Thus, the additional deduction for SMBs in the primary and manufacturing sectors that may be claimed by a corporation for a taxation year will apply to the amount on which the corporation is taxed at a rate reduced by the SBD for the taxation year.

■ Corporation in the primary or manufacturing sector

“Corporation in the primary or manufacturing sector,” for a particular taxation year, means a corporation at least 25% of whose activities are in the primary sector or the manufacturing and processing sector.

The labour cost will be the item considered in determining the proportion of a corporation’s activities attributable to the primary sector or the manufacturing and processing sector. More specifically, the proportion of a corporation’s activities in the primary sector or the manufacturing and processing sector will be determined by the following formula:

$$\text{Proportion of activities in the primary sector or the manufacturing and processing sector} = \frac{\text{LCPMP}}{\text{LC}}$$

Where:

- LCPMP represents the labour cost in the primary sector and the manufacturing and processing sector;
- LC corresponds to the labour cost.

Activities in the primary sector are those attributable to activities in the agriculture, forestry, fishing and hunting sector and the mining, quarrying, and oil and gas extraction sector that are grouped under codes 11 and 21 of the North American Industry Classification System (NAICS).⁵² Manufacturing and processing activities are those that, under the federal *Income Tax Regulations*,⁵³ constitute qualified activities for the purposes of determining manufacturing and processing profits.

52 See note 48.

53 See note 49.

For the purposes of this formula, the LCPMP will be determined by making the necessary adaptations to broaden the definition of manufacturing and processing labour cost currently used for the purposes of the additional deduction for manufacturing SMBs so that it includes activities in the primary sector, while the definition of LC will be that currently used for the purposes of the additional deduction.

■ **Application date**

The changes relative to the extension of the additional deduction for manufacturing SMBs to SMBs in the primary sector will apply to a taxation year beginning after December 31, 2016.

□ **Changes to the calculation parameters**

As indicated above, the parameters for determining the rate of the additional deduction for SMBs in the primary and manufacturing sectors will be the same as those used in applying the SBD to corporations in these sectors that do not meet the criterion concerning the minimum number of employees.

For greater clarity, the determination of the rate of the additional deduction for SMBs in the primary and manufacturing sectors will apply to all corporations in these sectors regardless of the number of the employees.

■ **Determination of the rate of the additional deduction for SMBs in the primary and manufacturing sectors**

A corporation in the primary or manufacturing sector whose proportion of activities in the primary sector or the manufacturing and processing sector for a particular taxation year is 50% or more will be able to claim the additional deduction for SMBs in the primary and manufacturing sectors at the rate of 4%.

Where the proportion for a particular taxation year is between 50% and 25%, the rate of the additional deduction for SMBs in the primary and manufacturing sectors applicable to a corporation for the taxation year will be reduced linearly. The rate allowed for the additional deduction for SMBs in the primary and manufacturing sectors will be equal to the rate determined by the following formula:

$$\text{Additional deduction rate allowed} = 4\% \times \frac{(\text{PAPMP} - 25\%)}{25\%}$$

In this formula, PAPMP stands for the proportion of activities in the primary sector and the manufacturing and processing sector.

For example, a corporation in the primary or manufacturing sector whose proportion of activities in the primary or manufacturing and processing sector is 40% will be able to claim an additional SBD at a rate equal to 2.4%.⁵⁴

54 $4\% \times [(40\% - 25\%) \div 25\%] = 2.4\%$.

The following table presents the tax rates according to the new rules for a corporation whose taxation year begins after December 31, 2016.

TABLE A.7

Corporate tax rates in Québec – Rules applicable after the tabling of the budget for a taxation year beginning after December 31, 2016⁽¹⁾
(per cent)

	SMB					Other	
	Having more than 3 employees			Not having more than 3 employees			
	Sector		Other	Sector			
	Primary and manufacturing	Other		Primary and manufacturing	Other		
	100% ⁽²⁾	40% ⁽³⁾		100% ⁽²⁾	40% ⁽³⁾		
General tax rate	11.80	11.80	11.80	11.80	11.80	11.80	11.80
SMB deduction	-3.80	-3.80	-3.80	-3.80	-2.28		
SMB tax rate	8.00	8.00	8.00	8.00	9.52		
Additional deduction for SMBs in the primary and manufacturing sectors	-4.00	-2.40		-4.00	-2.40		
Tax rate for SMBs in the primary and manufacturing sectors	4.00	5.60		4.00	7.12		

(1) The reductions in the general tax rate and that in the SBD subsequent to 2017 are not reflected in this table. The rates in this table are those applicable to a corporation whose taxation year corresponds to the 2017 calendar year.

(2) Situation in which a corporation may claim the full amount of the additional deduction for SMBs in the primary and manufacturing sectors, because the proportion of its activities in these sectors is 50% or more.

(3) In this example, a corporation may claim part of the additional deduction for SMBs in the primary and manufacturing sectors, because the proportion of its activities in these sectors is 40%.

■ **Clarification concerning the additional deduction for transportation costs of remote manufacturing SMBs**

Despite the refocusing of the additional deduction for manufacturing SMBs, the scope of the additional deduction for transportation costs of remote manufacturing SMBs, and the parameters for determining the additional deduction, remain unchanged.

■ **Application date**

The changes relative to the parameters for calculating the additional deduction for manufacturing SMBs, which will become the additional deduction for SMBs in the primary and manufacturing sectors, will apply to a taxation year beginning after December 31, 2016.

2.2 Gradual reduction of the Health Services Fund contribution rate for SMBs in the service and construction sectors

Under the *Act respecting the Régie de l'assurance maladie du Québec*,⁵⁵ an employer must pay a contribution to the Health Services Fund in respect of the wages that the employer pays to the employer's employee who reports for work at the employer's establishment in Québec, that the employer is deemed to pay to the employee or that the employer pays in respect of the employee, or to the employer's employee to whom those wages, if the employee is not required to report for work at an establishment of the employer, are paid, deemed to be paid or paid in respect of the employee from such an establishment in Québec.

Currently, the contribution payable for a year to the Health Services Fund must be calculated at a rate of 4.26%, unless the employer is a specified employer for the year and the employer's total payroll⁵⁶ is less than \$5 million.

Briefly, a specified employer for a year is an employer⁵⁷ that has an establishment in Québec in the year and that is not the State, the government of another province or the Government of Canada or an employer that, at a particular time in the year, is:

- a mandatory body of the State, the government of another province or the Government of Canada;
- a municipality or a mandatory body of a municipality;
- a municipal or public body performing a function of government or a mandatory body of such a body;
- a corporation, commission or association exempt from income tax under section 985 of the *Taxation Act*.⁵⁸

55 CQLR, chapter R-5.

56 The term "total payroll" is defined in the first paragraph of section 33 of the *Act respecting the Régie de l'assurance maladie du Québec*. Essentially, an employer's total payroll for a year means the aggregate of the wages paid or deemed to be paid in the year by the employer and by any other employer with which the employer is associated at the end of the year and that, at that time, carries on a business in which it ordinarily employs, for all or part of the year, at least one employee, whether full-time or part-time.

57 For the purposes of the employer contribution to the Health Services Fund, a partnership may be considered an employer, on the same basis as a legal person or an individual.

58 CQLR, chapter I-3.

The applicable rate for the purposes of calculating the contribution to the Health Services Fund payable by a specified employer, other than an eligible specified employer,⁵⁹ is 2.7% if the employer's total payroll for the year is \$1 million or less. That rate rises linearly to 4.26% for specified employers whose total payroll is between \$1 million and \$5 million. The rate for eligible specified employers ranges from 1.6% to 4.26%.

To ease the tax burden of small and medium-sized businesses (SMBs) in the service and construction sectors, the rate of the contribution to the Health Services Fund for employers in these sectors whose total payroll is equal to or less than \$1 million will gradually decrease from 2.7% to 2.25% over a three-year period beginning in 2017. Employers whose total payroll is between \$1 million and \$5 million will also see a gradual reduction in their contribution rate.

The following table shows the impact of the gradual reduction of the Health Services Fund contribution rate for SMBs in the service and construction sectors.

TABLE A.8

Illustration of the impact of the gradual reduction of the Health Services Fund contribution rate for SMBs in the service and construction sectors
(per cent)

	Total payroll				
	\$1 million or less	\$2 million	\$3 million	\$4 million	\$5 million or more
Current rates	2.70	3.09	3.48	3.87	4.26
Rates for 2017	2.55	2.98	3.41	3.83	4.26
Rates for 2018	2.40	2.87	3.33	3.80	4.26
Rates as of 2019	2.25	2.75	3.26	3.76	4.26

More specifically, for the purposes of calculating the Health Services Fund contribution payable for a particular year subsequent to 2016 by a specified employer, other than an eligible specified employer,⁶⁰ the rate applicable to wages subject to the contribution for the year will correspond to:

- for 2017, one of the following rates:
 - 2.55%, where the employer's total payroll for the year is \$1 million or less,

59 An eligible specified employer for a year is a specified employer whose total payroll for the year is less than \$5 million, where over 50% of the employer's total payroll for the year is attributable to activities in the agriculture, forestry, fishing and hunting sector, the mining, quarrying and oil and gas extraction sector or the manufacturing sector that are grouped under codes 11, 21 or 31 to 33 of Statistics Canada's North American Industry Classification System (NAICS).

60 See the preceding note.

- the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$2.1225\% + \frac{(0.4275\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26%, otherwise;
- for 2018, one of the following rates:
 - 2.40%, where the employer's total payroll for the year is \$1 million or less,
 - the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$1.935\% + \frac{(0.465\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26%, otherwise;
- for a year subsequent to 2018, one of the following rates:
 - 2.25%, where the employer's total payroll for the year is \$1 million or less,
 - the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$1.7475\% + \frac{(0.5025\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26%, otherwise.

Where the percentage rate determined by one of the above formulas has more than two decimals, only the first two are to be used and the second decimal must be increased by one unit if the third is greater than 4.

To bolster the capacity to innovate of Québec SMBs while fostering the creation of specialized jobs, a temporary reduction of the contribution to the Health Services Fund was implemented further to the budget speech of June 4, 2014, for full-time jobs created in the natural and applied sciences sector.⁶¹

Briefly, this reduction, applicable until 2020, is granted regarding the increase in payroll attributable to the hiring of specialized employees by a specified employer whose total payroll is less than \$5 million.

Currently, to establish the amount of the reduction to which a specified employer, other than an eligible specified employer, may be entitled for a year, the reduction rate to be used is 2.7%, where the employer's total payroll for the year is \$1 million or less; otherwise, the rate determined by a formula based on the employer's Health Services Fund contribution rate for the year must be used.

61 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp. 8-14.

To take into account the gradual reduction as of 2017 of the Health Services Fund contribution rate of a specified employer, other than an eligible specified employer, whose total payroll for a year is \$1 million or less, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to stipulate that, for the purposes of calculating, for a year subsequent to 2016, the temporary reduction of the Health Services Fund contribution of a specified employer, other than an eligible specified employer, whose total payroll is \$1 million or less, the rate of reduction will be equal to:

- 2.55% for 2017;
- 2.40% for 2018;
- 2.25% for 2019 and 2020.

2.3 Changes to the tax credit for investments relating to manufacturing and processing equipment

Briefly, a qualified corporation for a taxation year that acquires qualified property may claim the tax credit for investments relating to manufacturing and processing equipment (hereafter called the “tax credit for investments”) in respect of eligible expenses it incurred, in excess of \$12 500, to acquire the property.⁶²

The base rate of the tax credit for investments is 4%. This rate may be increased to 32% in respect of qualified property acquired to be used mainly in a remote zone.⁶³ It may reach 24% if the qualified property is acquired to be used mainly in the eastern part of the Bas-Saint-Laurent administrative region⁶⁴ and 16% if it acquired to be used mainly in an intermediate zone.⁶⁵ The rate may be increased to 8% otherwise.

The tax credit for investments to which a qualified corporation is entitled for a taxation year may be deducted from its total taxes⁶⁶ for the taxation year. The portion of the tax credit for investments relative to a taxation year that cannot be used to reduce the corporation’s total taxes for the taxation year may be refunded, in whole or in part, or carried over.

62 A corporation that is a member of a qualified partnership that acquires qualified property may receive the tax credit for investments in proportion to its share of the partnership’s income or loss. For details on the exclusion threshold of \$12 500 respecting qualified expenditures applicable to each qualified property, see: MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2014-11*, December 2, 2014, pp. 24-28.

63 Remote zones consist of the following administrative regions: Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie-Îles-de-la-Madeleine.

64 The eastern part of the Bas-Saint-Laurent administrative region consists of the following regional county municipalities (RCMs): La Matapédia, La Mitis and La Matanie.

65 Intermediate zones consist of the following administrative regions and RCMs: the Saguenay-Lac-Saint-Jean administrative region, the Mauricie administrative region, the Antoine-Labelle RCM, the Kamouraska RCM, the La Vallée-de-la-Gatineau RCM, the Les Basques RCM, the Pontiac RCM, the Rimouski-Neigette RCM, the Rivière-du-Loup RCM and the Témiscouata RCM.

66 *Taxation Act*, (CQLR, chapter I-3), s. 1029.8.36.166.40.

For a qualified corporation to benefit fully from a higher rate and the refundability of the tax credit for a taxation year, its paid-up capital for the taxation year must not exceed \$250 million.⁶⁷ The increase in the rate of the tax credit and the refundable portion of the tax credit decrease linearly for paid-up capital between \$250 million and \$500 million. A corporation whose paid-up capital reaches \$500 million may receive only the base rate of 4% and no part of the tax credit is refundable.

In addition, a qualified corporation may take advantage of a higher rate and the refundability of the tax credit for investments for a taxation year only in regard to the eligible expenses it incurred that do not exceed a cumulative limit of \$75 million.⁶⁸

Qualified property, for the purposes of the tax credit for investments, is property included in Class 29 of Schedule B to the *Regulation respecting the Taxation Act*,⁶⁹ property included in Class 43, property included in Class 50 or Class 52 of the schedule that is used mainly in the manufacturing or processing of goods for sale or lease, or property acquired after March 20, 2012 to be used mainly 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. Among other things, the property must have been acquired before January 1, 2018 for use solely in Québec and, prior to its acquisition, it must not have been used for any purpose nor acquired to be used or leased for any purpose whatsoever.

Amendments will be made to the tax legislation with respect to the tax credit for investments. The maximum amount of the tax credit for investments in the various zones will be reduced by eight percentage points. In addition, the definition of qualified property will be modified so that, in certain cases, property may qualify as such if it is acquired before January 1, 2023. The definition will also be modified to take into account the reduction of the tax credit rates.

□ Revision of the rates of the tax credit for investments

The tax legislation will be amended so that the increase in the rate of the tax credit for investments applicable to qualified property acquired to be used mainly in a remote zone, the eastern part of the Bas-Saint-Laurent administrative region or an intermediate zone is reduced by eight percentage points.

Consequently, the tax credit rate applicable to a qualified corporation in respect of qualified property acquired to be used mainly in a remote zone may reach 24%, that is, the 4% base rate plus an increase in the base rate of up to 20%.

67 Where the qualified corporation is a member of an associated group in the taxation year, the rate of the tax credit and its refundability are determined by taking into account the corporation's paid-up capital and that of each member of the associated group, according to the usual rules (*Taxation Act*, ss. 737.18.24 and 1029.8.36.166.41).

68 A \$75-million cumulative limit also applies to eligible expenses of a qualified partnership enabling a qualified corporation that is a member of the partnership to take advantage of a higher rate and the refundability of the tax credit for investments (*Taxation Act*, ss. 1029.8.36.166.40.1, 1029.8.36.166.40.3 and 1029.8.36.166.40.4).

69 CQLR, chapter I-3, r.1.

The maximum tax credit rate applicable to a qualified corporation in respect of qualified property acquired to be used mainly in the eastern part of the Bas-Saint-Laurent administrative region will be 16%, that is, the base rate of 4% plus an increase in the base rate of up to 12%.

Similarly, the maximum tax credit rate applicable to a qualified corporation in respect of qualified property acquired to be used mainly in an intermediate zone will be 8% that is, the 4% base rate plus an increase in the base rate of up to 4%.

Lastly, given that the reduction in tax assistance relative to the tax credit for investments is eight percentage points and the tax credit rate in respect of eligible expenses incurred to acquire property other than property acquired to be used mainly in a remote zone, in the eastern part of the Bas-Saint-Laurent administrative region, or in an intermediate zone may not exceed 8%, the tax legislation will be amended so that such expenses no longer give entitlement to the tax credit for investments.

The following table presents the maximum rates of the tax credit for investments before and after the revision.

TABLE A.9

Rates of the tax credit for investments before and after the revision
(per cent)

Place where the property acquired is to be mainly used	Rates applicable before January 1, 2017		Rates applicable after December 31, 2016	
	Paid-up capital of \$250 million or less ^{(1),(2)}	Paid-up capital of \$500 million or more ⁽¹⁾	Paid-up capital of \$250 million or less ^{(1),(2)}	Paid-up capital of \$500 million or more ⁽¹⁾
Remote zones	32	4	24	4
Eastern part of the Bas-Saint-Laurent administrative region	24	4	16	4
Intermediate zones	16	4	8	4
Other regions	8	4	0	0

(1) Where the qualified corporation is a member of an associated group, paid-up capital is determined taking into account the paid-up capital of the qualified corporation and that of each member of the associated group, according to the usual rules.

(2) Only eligible expenses incurred by the qualified corporation that do not exceed a cumulative limit of \$75 million give rise to the increased rate and the refundability of the tax credit for investments.

The other rules for determining the rate of the tax credit for investments applicable to a qualified corporation regarding eligible expenses it incurred to acquire qualified property will apply, with the necessary adaptations.

As an example, the rate of the tax credit for investments that will apply to a qualified corporation with paid-up capital of \$375 million, for a taxation year, regarding its eligible expenses for the taxation year in respect of qualified property acquired to be used mainly in a remote zone will be 14%.⁷⁰

■ **Application date**

These amendments to the tax legislation will apply to eligible expenses incurred after December 31, 2016.

□ **Extension of the tax credit for investments and changes to the definition of qualified property**

The tax legislation will be amended so that an additional period of five years is allowed for the acquisition of property qualifying for the tax credit for investments. The definition of qualified property⁷¹ will therefore be changed so that property may be recognized as qualified property for the purposes of the tax credit if it is acquired before January 1, 2023 and it meets the other conditions set forth in the tax legislation.

The definition will also be changed so that property acquired after December 31, 2016 other than property acquired to be used mainly in a remote zone, the eastern part of the Bas-Saint-Laurent administrative region or an intermediate zone may be recognized as qualified property for the purposes of the tax credit for investments.

2.4 Increase in the refundable tax credit for on-the-job training periods

An eligible taxpayer may, under certain conditions, claim a refundable tax credit for on-the-job training periods where a student serves a qualified training period with a business carried on in Québec by the taxpayer or by a partnership of which the taxpayer is a member.

Given that a 20% reduction in tax assistance applied to certain tax measures for businesses was announced as part of the budget speech of June 4, 2014,⁷² this tax credit is now calculated using a base rate of 24% applicable to the qualified expenditure of an eligible taxpayer that is a corporation, and a base rate of 12% in the case of an eligible taxpayer that is an individual. However, where the eligible trainee is a disabled person or an immigrant, these rates are increased to 32% and 16%, respectively.

70 The 14% rate is calculated as follows: $24\% - \{20\% \times [(\$375 \text{ million} - \$250 \text{ million}) \div \$250 \text{ million}]\}$. It is determined taking into account the fact that the qualified corporation did not reach its cumulative eligible expense limit of \$75 million.

71 *Taxation Act*, s. 1029.8.36.166.40.

72 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, p. 52.

Briefly, a qualified expenditure consists of the salary or wages paid to an eligible trainee and the salary or wages paid to an eligible supervisor, these salaries and wages being subject, however, to a maximum hourly rate. A qualified expenditure is also subject to a weekly cap that depends on the training period and the trainee concerned.

An eligible trainee is, for example, a student who is serving a training period in an establishment of the eligible taxpayer or of a qualified partnership of which the taxpayer is a member, and who is enrolled full time in one of the following programs (hereafter called a “student trainee”):

- a secondary education program;
- a college education program;
- a university education program at the undergraduate, Master’s or doctoral level;
- a program aimed in general at social and professional or social and vocational integration.

So that the tax assistance provides businesses with more of an incentive to take on student trainees on a recurring basis, the tax legislation will be amended to raise the base rates and increased rates of the tax credit for an eligible taxpayer’s taxation year as follows:

- the base rates will be 40% and 20%, respectively;
- the increased rates will be 50% and 25%, respectively.

However, a taxpayer will be able to take advantage of the higher tax credit rates in respect of an eligible trainee for a taxation year only if the following conditions are met:

- the eligible trainee is a student trainee;
- the taxation year is at least the third consecutive taxation year for which the taxpayer is entitled to the tax credit in respect of a student trainee, or the fiscal period of the partnership ending in the taxation year is at least the third consecutive fiscal period for which the partnership incurred a qualified expenditure in respect of a student trainee;
- a qualified expenditure of the eligible taxpayer or the eligible partnership of which the taxpayer is a member, as the case may be, incurred in respect of a student trainee reached \$2 500 for each of the three consecutive taxation years or more, or for each of the three consecutive fiscal periods or more, referred to in the previous paragraph.

These amendments will apply in respect of a qualified expenditure incurred after the day of the Budget Speech relative to an eligible training period beginning after that day.

2.5 Changes respecting the refundable tax credit for the integration of IT in manufacturing SMBs

In October 2013, a new refundable tax credit was introduced temporarily to support Québec's small and medium-sized manufacturing businesses (SMBs) that want to invest in technology and integrate information technologies (IT) in their business processes.⁷³

Briefly, a qualified corporation may claim the refundable tax credit for the integration of IT in manufacturing SMBs in respect of expenditures relating to the supply of a qualified management software package that are incurred by the corporation before January 1, 2018.⁷⁴

The tax credit is equal to 25% of expenditures relating to a qualified IT integration contract for which Investissement Québec has issued a certificate. However, the total amount of the tax credit that may be claimed by a qualified corporation in respect of one or more qualified IT integration contracts, as the case may be, is limited to \$62 500.

In the context of the revision of preferential measures for businesses carried out as part of Budget Speech 2014-2015, it was announced that Investissement Québec could no longer accept, as of June 4, 2014, applications for a certificate in respect of an IT integration contract for the purposes of the tax credit.⁷⁵

However, manufacturing SMBs that had submitted an application for a certificate in respect of an IT integration contract to Investissement Québec before June 4, 2014 and that received one, could continue to claim the tax credit in respect of the contract after that date.

The government will allow certificates to be issued again for the purposes of the refundable tax credit, extend the duration of the tax credit for two years, reduce the rate of the tax credit and, lastly, extend the tax credit to corporations in the primary sector.

❑ Issuing of certificates and extension of the tax credit for two years

The *Act respecting the sectoral parameters of certain fiscal measures*⁷⁶ will be amended to allow Investissement Québec to accept applications for a certificate submitted after the day of the Budget Speech but before January 1, 2020, in respect of an IT integration contract the negotiation of which commences after the day of the Budget Speech but before January 1, 2020.

For greater clarity, the other conditions applicable to the tax credit set forth in the Act will remain the same.

73 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin 2013-10*, October 7, 2013, pp. 28-33.

74 A corporation that is a member of a partnership may also claim the tax credit. See the preceding note, p. 29.

75 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, p. 61.

76 CQLR, chapitre P-5.1.

Moreover, consequential amendments will be made to the tax legislation to extend the tax credit for two years.

■ **IT integration contract prior to the day of the Budget Speech**

In the case of a qualified IT integration contract in respect of which an application for a certificate was made prior to June 4, 2014 and for which Investissement Québec issued such a certificate, expenditures relating to the supply of a qualified management software package⁷⁷ that are incurred before January 1, 2020 relative to such an IT integration contract will qualify for the tax credit.

■ **IT integration contract subsequent to the day of the Budget Speech**

As part of Budget 2014-2015, it was announced that a general 20% reduction would apply to tax assistance for businesses.⁷⁸

However, since no certificates could be issued for the purposes of the refundable tax credit for the integration of IT in manufacturing SMBs, the tax credit was not reduced.

Since Investissement Québec can begin issuing certificates again for the purposes of the tax credit, an amendment will be made to the tax legislation to reduce the level of tax assistance available under the tax credit, as was done in the case of the other tax assistance measures for businesses.

Thus, this tax credit will now be equal to 20% of expenditures relating to a qualified IT integration contract.

For greater clarity, the tax credit rate respecting a qualified corporation for a taxation year will be 20%, where the corporation's paid-up capital for the taxation year does not exceed \$15 million. This rate will be reduced linearly and will reach zero when the paid-up capital of the qualified corporation for the year reaches \$20 million or more. Accordingly, a qualified corporation whose paid-up capital is \$20 million or more for a taxation year may not claim the tax credit.⁷⁹

Thus, the total amount of the tax credit that may be claimed by a qualified corporation in respect of one or more IT integration contracts, as applicable, will be limited to \$50 000 because of the reduction.

77 "Supply of a qualified management software package" refers to, among other things, the acquisition, lease or rights of use of a management software package or an open-source management software package that mainly enables management of all of the operational processes of a business by integrating all of the functions of the business. See note 73, pp. 29-33.

78 See note 75, p. 31.

79 As announced when the tax credit was introduced, the paid-up capital of a qualified corporation for the taxation year will be determined taking into account the paid-up capital of corporations with which the corporation is associated in the taxation year, according to the usual rules. See note 73, p. 31.

These amendments will apply to expenditures relating to the supply of a qualified management software package incurred after the day of the Budget Speech but before January 1, 2020 in respect of an IT integration contract the negotiation of which commences after the day of the Budget Speech but before January 1, 2020 and for which Investissement Québec issued a qualification certificate.

❑ Eligibility of corporations in the primary sector

As mentioned when the tax credit was introduced, the integration of IT in a company's business processes is a key driver of productivity and competitiveness, which leads to more innovation. In that regard, a business must have access to an efficient computer systems infrastructure and have a system that optimizes the circulation of information.

In this context, the scope of the tax credit will be broadened to include corporations in the primary sector.

Consequently, the tax legislation will be amended so that the expression "qualified manufacturing corporation or qualified corporation in the primary sector" means, for a taxation year, a qualified corporation, as this expression is defined for the purposes of the tax credit,⁸⁰ whose proportion of manufacturing or processing activities⁸¹ and activities in the primary sector (PMPAPS) for the taxation year exceeds 50%.

Consequential amendments will also be made to the tax legislation concerning the expression "qualified manufacturing partnership or qualified partnership in the primary sector."

Activities in the primary sector will be those attributable to the agriculture, forestry, fishing and hunting sector and the mining, quarrying, and oil and gas extraction sector that are grouped under codes 11 and 21 of the North American Industry Classification System (NAICS).⁸²

■ Proportion of manufacturing or processing activities and activities in the primary sector

The PMPAPS of a qualified corporation for a taxation year or a qualified partnership for a fiscal period corresponds to the result of the following formula:

$$\text{PMPAPS} = \frac{\text{SWMPPS}}{\text{SW}}$$

Where:

- SWMPPS corresponds to the salaries or wages incurred by the corporation in respect of employees whose duties consist of manufacturing or processing activities or activities in the primary sector;

80 See note 73, p. 29.

81 See note 73, p. 18.

82 The description of these codes is available on the Statistics Canada website: www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVDPPage1&db=imdb&dis=2&adm=8&TVD=118464 (viewed on March 19, 2015).

— SW corresponds to the salaries or wages incurred by the corporation in respect of all of its employees.

The notions of “salary or wages,” “manufacturing or processing salaries or wages” and “manufacturing or processing activities” applicable to the tax credit will remain unchanged.⁸³

Thus, “salaries or wages in the primary sector,” which means the portion of the salaries or wages incurred by the qualified corporation or qualified partnership in respect of an employee, represented by dividing the time the employee spends on duties regarding the primary sector by all of the employee’s work time, will be taken into account, along with manufacturing or processing salaries or wages, for the purpose of calculating the PMPAPS of a qualified corporation for a taxation year or a qualified partnership for a fiscal period, as the case may be.

To that effect, where more than 90% of an employee’s work time is spent on duties connected with the primary sector of the qualified corporation for a taxation year, or of the qualified partnership for a fiscal period, all of the employee’s work time will be deemed to be spent on such duties for the taxation year or the fiscal period, as the case may be.

For greater clarity, the other conditions applicable to the tax credit provided for in the tax legislation will remain unchanged.

■ **Application date**

These amendments will apply to expenditures relating to the supply of a qualified management software package incurred after the day of the Budget Speech but before January 1, 2020 in respect of an IT integration contract the negotiation of which commences after the day of the Budget Speech but before January 1, 2020 and for which Investissement Québec issued a qualification certificate.

2.6 Improvements to the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec

The refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec was introduced on November 17, 2000.⁸⁴ The tax credit is intended for corporations carrying on activities in the marine or wind-power resources sector or the manufacturing sector, subject to the specific features applicable to each administrative region. The eligibility period under the tax credit ends on December 31, 2015.

To be eligible for the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec, a corporation must, among other things, begin carrying on its recognized business no later than December 31, 2015 and apply for an initial certificate from Investissement Québec. The corporation must demonstrate to Investissement Québec’s satisfaction that the business in respect of which application for an initial certificate is made will help create at least three full-time jobs in a reasonable time at an establishment of the corporation located in an eligible region.

83 See note 73, p. 18.

84 MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2000-8*, November 17, 2000, pp. 1-8.

The terms for determining the tax credit and the applicable rate differ according to the recognized business's activities carried on by the qualified corporation.

Thus, a qualified corporation that carries on a recognized business in the wind-power sector in the Gaspésie–Îles-de-la-Madeleine administrative region or the La Matanie regional county municipality (RCM), in the manufacturing sector in the Gaspésie–Îles-de-la-Madeleine administrative region, or in the peat or slate processing sector in the Côte-Nord or Bas-Saint-Laurent administrative region may claim the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec at the rate of 16%.⁸⁵ A qualified corporation's tax credit for a taxation year is calculated on the increase in payroll attributable to the corporation's eligible employees for the calendar year ended in the taxation year and corresponds to the amount by which the salaries or wages⁸⁶ paid by the corporation to its employees for the pay periods ended in the calendar year in which they were eligible employees exceed the salaries or wages paid to its employees for the pay periods ended in the base period in which they are eligible employees.⁸⁷

A qualified corporation that operates a recognized business in the marine biotechnology sector or the mariculture sector in the Gaspésie–Îles-de-la-Madeleine, Côte-Nord or Bas-Saint-Laurent administrative region may claim the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec at the rate of 32%.⁸⁸ A qualified corporation's tax credit for a taxation year in which a calendar year ends is calculated on the aggregate of the salaries or wages paid by the corporation to its employees for pay periods ended in the calendar year in which they are eligible employees.

Lastly, a qualified corporation that carries on a recognized business in the marine products processing sector in the Gaspésie–Îles-de-la-Madeleine or Côte-Nord administrative region or the La Matanie RCM may also claim, for a taxation year in which a calendar year ends, the tax credit calculated on the aggregate of the salaries or wages paid by the corporation to its employees for pay periods ended in the calendar year in which they are eligible employees. The tax credit rate is 16%.⁸⁹

85 The terms for determining the tax assistance attributable to these activity sectors are provided for in Division II.6.6.6.1 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act* (CQLR, chapter I-3) respecting the tax credit for job creation in the resource regions, in the Aluminum Valley and in the Gaspésie and certain maritime regions of Québec. The sectoral parameters applicable to these activity sectors are set out in Chapter XI of Schedule A to the *Act respecting the sectoral parameters of certain fiscal measures* (CQLR, chapter P-5.1).

86 The term "salary or wages" is defined in sections 1029.8.36.72.82.1 and 1029.8.36.72.82.13 of the *Taxation Act*.

87 To be an eligible employee of a qualified corporation for a pay period, an employee must, among other things, spend at least 75% of work time during the period in undertaking, supporting or supervising the activities of a recognized business of the corporation (*Act respecting the sectoral parameters of certain fiscal measures*, Schedule A, ss. 11.20 and 12.12).

88 The terms for determining the tax assistance attributable to these activity sectors are provided for in Division II.6.6.6.2 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act* respecting the tax credit for job creation in the Gaspésie and certain maritime regions of Québec in the fields of marine biotechnology, mariculture and marine products processing. The sectoral parameters applicable to these activity sectors are set out in Chapter XII of Schedule A to the *Act respecting the sectoral parameters of certain fiscal measures*.

89 See the previous note.

To further support economic development in the Gaspésie-Îles-de-la-Madeleine region and the maritime regions of Québec, a number of changes will be made to the refundable tax credit for Gaspésie Peninsula and certain maritime regions of Québec.⁹⁰ First, activities in the recreation and tourism sector carried on on the territory of the urban agglomeration of Îles-de-la-Madeleine will be added to the activities that may be recognized. In addition, the eligibility period under the tax credit will be extended for a five-year period. Determination of the tax credit will be harmonized as of the 2016 calendar year so that it is calculated, for all activity sectors, on salaries or wages paid to an employee for the pay periods during which the employee is an eligible employee. However, there will be a limit on the amount of salaries or wages giving entitlement to the tax credit. Lastly, the tax credit rates will be reduced.

2.6.1 Addition of an eligible activity sector for the urban agglomeration of Îles-de-la-Madeleine

The *Act respecting the sectoral parameters of certain fiscal measures* (hereafter called the “sectoral act”) will be amended so that activities in the recreation and tourism sector carried on by a corporation on the territory of the urban agglomeration of Îles-de-la-Madeleine may be recognized by Investissement Québec for the purposes of the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec.

In addition, the tax legislation will be amended so that a qualified corporation that carries on a recognized business in the recreation and tourism sector on the territory of the urban agglomeration of Îles-de-la-Madeleine for a calendar year ended in a taxation year may claim the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec for the taxation year at a rate of 32%. The corporation’s tax credit for the taxation year in which the calendar year ends will be calculated on the aggregate of salaries or wages that were paid by the corporation to its employees for the pay periods ended in the calendar year in which they were eligible employees and that are attributable to the recognized business’s activities in the recreation and tourism sector.

The other terms of the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec applicable to the marine biotechnology, mariculture and marine products processing sectors will apply to such a corporation,⁹¹ including the changes announced as part of this Budget Speech.

90 For the purposes of this subsection, the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec refers to the tax credit for job creation in the resource regions, in the Aluminum Valley and in the Gaspésie and certain maritime regions of Québec, but solely in respect of activities in the maritime, wind-power and manufacturing sectors that may be recognized in one or more eligible regions (see the definition of this term in section 1029.8.36.72.82.1 of the *Taxation Act*), and to the tax credit for job creation in Gaspésie and certain maritime regions of Québec in the marine biotechnology, mariculture and marine products processing sectors.

91 See Division II.6.6.6.2 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act* in this regard.

□ Activities in the recreation and tourism sector

For the purposes of the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec, an activity may be recognized by Investissement Québec as an activity in the recreation and tourism sector if it corresponds to one of the following activities:

- an activity that consists in operating a tourist accommodation establishment in respect of which the Minister of Tourism has issued a classification certificate under the *Act respecting tourist accommodation establishments*,⁹² valid for the year, certifying that the establishment is included in one of the categories of tourist accommodation establishments provided for in the Act,⁹³ which may include an incidental food products manufacturing or processing activity included in the tourist accommodation offer and intended exclusively for the clientele of the tourist accommodation establishment;
- an activity that consists in renting boats, bicycles or other transportation equipment for recreational purposes, or in renting outdoor equipment;
- an activity relating to guided tours and boat excursions under 24 hours long;
- an activity relating to the operation of recreational facilities that are conducive to fostering tourism, such as museums, theatres or performance halls, interpretation centres and health centres,⁹⁴ as well as a recreational activity intended particularly for a tourist clientele, such as equestrian activities, diving, and nature interpretation activities.

Commercialization activities incidental to these activities may also be recognized by Investissement Québec as activities in the recreation and tourism sector.

However, the following activities cannot be recognized as activities in the recreation and tourism sector:

- food manufacturing or processing activities that are carried on in restaurants, tourist accommodation establishments, fast-food outlets, grocery stores or other similar commercial establishments, other than those that are included in a tourist accommodation offer to which they are incidental and that are intended exclusively for the clientele of a tourist accommodation establishment whose operation is recognized as an activity in the recreation and tourism sector;
- automobile rental activities;

92 CQLR, chapter E-14.2.

93 Where a certificate issued under the *Act respecting tourist accommodation establishments* is valid in respect of a tourist accommodation establishment for only part of a calendar year, the activities relating to the operation of the establishment may be recognized by Investissement Québec solely for the part of the year during which the certificate is valid.

94 For greater clarity, “health centre” means a relaxation centre, a nordic or other spa, a massotherapy centre or any other place offering similar services. However, the term does not apply to centres where health care is provided by health professionals such as physicians, chiropractors, dentists or nurses.

- activities relating to transportation services by plane, ferry or bus;
- activities relating to the operation of facilities such as theatres, outdoor theatres, mini-golfs, arcades, bowling alleys, pool halls, bars and private clubs.

□ Application date

These amendments to the sectoral act and the tax legislation will apply as of the 2015 calendar year.

2.6.2 Extension of the refundable tax credit and other changes

□ Extension of the eligibility period under the tax credit

The tax legislation and the sectoral act will be amended to extend the eligibility period under the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec to December 31, 2020.

Similarly, the sectoral act will be amended so that corporations can submit an application for an initial certificate to Investissement Québec for the purposes of the tax credit for Gaspé Peninsula and certain maritime regions of Québec in respect of the recognized business that began to be carried on before January 1, 2021.

□ Standardization of the terms for calculating the tax credit

The tax legislation will be amended to standardize the terms for calculating the refundable tax credit for Gaspé Peninsula and certain maritime regions applicable to the various activity sectors.

Accordingly, the terms for calculating the tax credit applicable to the wind-power, manufacturing, and peat or slate processing sectors will be changed so that the tax credit that may be claimed by a qualified corporation for the activities of its recognized business in one of these sectors, for a taxation year ending in a calendar year, corresponds to the aggregate of the amounts each of which represents the salary or wages attributable to one of these sectors and paid to an employee for a pay period ended in the calendar year for which the employee was an eligible employee, multiplied by the applicable rate of the tax credit.

Moreover, given the standardization of the terms for calculating the tax credit, marine products processing activities will now be recognized by Investissement Québec solely when carried on in the Côte-Nord administrative region or the La Matanie RCM. Such activities carried on in the Gaspésie-Îles-de-la-Madeleine administrative region will be recognized as activities in the manufacturing sector.

■ Addition of a salary or wages limit for determining the tax credit

The tax legislation will also be amended to introduce a limit applicable to the salary or wages paid to an employee by a qualified corporation in respect of whom the corporation may claim the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec.

Accordingly, to determine the tax credit of a qualified corporation for a taxation in which a calendar year ends, the aggregate of the amounts each of which represents the salary or wages paid to an employee of the corporation for a pay period ended in the calendar year may not exceed \$83 333, calculated annually.⁹⁵

Where the employee was not an eligible employee of the corporation throughout the calendar year, the amount of \$83 333 will be replaced, for the calendar year, by the amount obtained by multiplying \$83 333 by the proportion that the total number of days during which the employee was an employee of the corporation for each pay period ended in the calendar year in which the employee was an eligible employee of the corporation is of 365.

Reduction of the tax credit rates

The tax legislation will be amended to reduce, from 16% to 15%, the rate used to determine the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec with respect to recognized activities in the wind-power sector, manufacturing sector, peat or slate processing sector and marine products processing sector.

Similarly, the tax legislation will be amended to reduce, from 32% to 30%, the rate used to determine the tax credit with respect to recognized activities in the marine biotechnology sector, mariculture sector and recreation and tourism sector.

Other terms

A corporation qualifying for the tax holiday for large investment projects will not be able to cumulate, in respect of the salary or wages paid to an employee for a pay period, the tax assistance relative to the holiday from the employer contribution to the Health Services Fund and the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec.

The tax legislation contains rules designed to prevent the cumulation of tax assistance regarding an expenditure that may give rise to more than one tax credit for more than one taxpayer or for the same taxpayer. A similar rule will apply to prevent the salary or wages paid to an employee by a qualified corporation for a pay period from giving entitlement to the tax credit, where the salary or wages qualify in whole or in part for the tax holiday from the employer contribution to the Health Services Fund, for the purposes of the tax holiday for large investment projects, and for the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec. The tax legislation will be so amended.

Application date

These amendments to the tax legislation and the sectoral act will apply to a calendar year subsequent to the 2015 calendar year.

95 This limit will, however, not apply to the determination of the “eligible amount” and the “base amount” used to calculate the tax credit. (See the definition of these terms in sections 1029.8.36.72.82.1 and 1029.8.36.72.82.13 in the *Taxation Act*.)

2.7 Growth in the contribution that tax-advantaged funds make to Québec's economic development

For many years now, the Fonds de solidarité FTQ, Fondaction⁹⁶ and Capital régional et coopératif Desjardins have contributed to Québec's economic growth by creating and protecting jobs through investments in Québec companies.

The government supports the mission of these funds by allowing them to raise capital enjoying a tax benefit in the form of a non-refundable tax credit granted to individuals who become their shareholders.

To reflect the fact that the financing of these funds is facilitated by granting a tax benefit, many measures have been taken over the years to govern the organization of these funds, to protect investors in these funds and ensure that these funds adhere to their mission.

To increase the contribution of tax-advantaged funds to Québec's economic development, various amendments will be made to their statutes of incorporation.⁹⁷

□ Measures relative to the Fonds de solidarité FTQ

The Fonds de solidarité FTQ invests primarily in development capital and divides its investment portfolio among various sectors of the economy. While emphasizing the so-called traditional economic sectors, it invests in sectors of the new economy, such as information and telecommunications technologies and life sciences.

Currently, for each of its fiscal years, the Fonds de solidarité FTQ is required to hold eligible investments representing, on average, at least 60% of its average net assets for the preceding fiscal year.

If this investment requirement is not met for a particular fiscal year, a penalty limiting the fund's growth for the subsequent fiscal year is imposed on the fund.

Over the years, the investment requirement for the Fonds de solidarité FTQ has been changed to adapt it to the capital requirements of Québec companies and enable the fund to play a larger role in Québec's economy.

96 Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi.

97 The statutes of incorporation of tax-advantaged funds are the *Act constituting Capital régional et coopératif Desjardins* (CQLR, chapter C-6.1), the *Act to establish Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* (CQLR, chapter F-3.1.2) and the *Act to establish the Fonds de solidarité des travailleurs du Québec* (F.T.Q.) (CQLR, chapter F-3.2.1).

■ Recognition of the fund's participation in establishing logistics hubs

Within the framework of Québec's Maritime Strategy, the government intends to foster, with the support of the Fonds de solidarité FTQ, the establishment of logistics hubs⁹⁸ in Québec. To that end, the government is allocating a budget of \$200 million over five years. The Fonds de solidarité FTQ is prepared to set aside \$100 million. The overall budget of \$300 million will be allocated to logistics hub projects with which other investors could also be associated.⁹⁹

The Fonds de solidarité FTQ will invest in such projects by means of an investment fund that will be incorporated as a limited partnership (hereafter called the "Fonds pour l'implantation de pôles logistiques").

To recognize the participation of the Fonds de solidarité FTQ in the establishment of logistics hubs, its statute of incorporation will be amended to stipulate that investments of up to \$100 million made in the Fonds pour l'implantation de pôles logistiques will be considered eligible investments for the purpose of calculating the fund's investment requirement.

Agreed investments, for which amounts have been committed, but not yet disbursed at the end of a given fiscal year, will also be considered eligible investments. For greater clarity, these investments will not be included in the calculation of the authorized limit of 12% that generally applies to non-disbursed investments.

In addition, for the purposes of calculating the fund's investment requirement, the amount of the investments made by the Fonds de solidarité FTQ in the Fonds pour l'implantation de pôles logistiques, including agreed investments, may be raised by 25%.

■ Gradual increase in the investment requirement

The investment requirement of the Fonds de solidarité FTQ will be gradually increased so that the proportion of its eligible investments represents, for any fiscal year beginning after March 31, 2019, at least 65% of its average net assets for the preceding fiscal year.

TABLE A.10

Gradual increase in the investment requirement of the Fonds de solidarité FTQ as of its 2015-2016 fiscal year⁽¹⁾ (per cent)

Current	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	As of 2020
60	61	62	63	64	65	65

(1) A fiscal year of the Fonds de solidarité FTQ begins on June 1 of a year and ends on May 31 of the following year.

98 A logistics hub is a zone that brings together several modes of transportation and value-added activities. Its purpose is to ensure efficient, rapid and safe handling of heavy cargo traffic.

99 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – The Québec Economic Plan*, March 26, 2015, section B, subsection 6.2.2.

To reflect the fact that the investment requirement imposed on the Fonds de solidarité FTQ will be gradually increased by five percentage points, changes will be made to the terms for calculating the penalty imposed on the fund if it does not meet its investment requirement.

More specifically, if the Fonds de solidarité FTQ does not meet its investment requirement for a particular fiscal year beginning after May 31, 2015, it will not be able to issue class “A” shares or fractional shares in the following fiscal year for a total consideration exceeding the following amount:

- 75% of the total consideration paid for class “A” shares and fractional shares issued in the preceding fiscal year, excluding the total consideration paid for class “A” shares or fractional shares acquired and paid by payroll deduction in accordance with the provisions of Division IV of the fund’s statute of incorporation or acquired under a subscription agreement entered into with an employer in favour of the employer’s employees, if eligible investments represent, on average:
 - less than 61%, but not less than 51%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2015 and ending on May 31, 2016,
 - less than 62%, but not less than 52%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning June 1, 2016 and ending on May 31, 2017,
 - less than 63%, but not less than 53%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2017 and ending on May 31, 2018,
 - less than 64%, but not less than 54%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2018 and ending on May 31, 2019,
 - less than 65%, but not less than 55%, of its average net assets for the preceding fiscal year, where the particular fiscal year begins after May 31, 2019;
- 50% of such consideration if eligible investments represent, on average:
 - less than 51%, but not less than 41%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2015 and ending on May 31, 2016,
 - less than 52%, but not less than 42%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2016 and ending on May 31, 2017,
 - less than 53%, but not less than 43%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2017 and ending on May 31, 2018,

- less than 54%, but not less than 44%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2018 and ending on May 31, 2019,
- less than 55%, but not less than 45%, of its average net assets for the preceding fiscal year, where the particular fiscal year begins after May 31, 2019;
- 25% of such consideration if eligible investments represent, on average:
 - less than 41%, but not less than 31%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2015 and ending on May 31, 2016,
 - less than 42%, but not less than 32%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2016 and ending on May 31, 2017,
 - less than 43%, but not less than 33%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2017 and ending on May 31, 2018,
 - less than 44%, but not less than 34%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2018 and ending on May 31, 2019,
 - less than 45%, but not less than 35%, of its average net assets for the preceding fiscal year, where the particular fiscal year begins after May 31, 2019.

However, if the eligible investments of the Fonds de solidarité FTQ for a particular fiscal year represent, on average, less than 31%, 32%, 33%, 34% or 35%, as the case may be, of its average net assets for the preceding year, the fund will not be able to issue class “A” shares or fractional shares in the following fiscal year.

Class “A” shares and fractional shares acquired and paid by payroll deduction in accordance with the provisions of Division IV of the statute of incorporation of the Fonds de solidarité FTQ or acquired under a subscription agreement entered into with an employer in favour of the employer’s employees will continue to be excluded from the application of this penalty.

❑ Measures relative to Fondation

In carrying out its mission, Fondation invests in companies involved in a participative management process as well as social economy businesses consisting of cooperatives and non-profit organizations. It also supports businesses that are sensitive to the environment and more sustainable development.

Currently, for each of its fiscal years, Fondation is required to hold eligible investments representing, on average, at least 60% of its average net assets for the preceding fiscal year.

If this investment requirement is not met for a particular fiscal year, a penalty limiting the fund’s growth for the following fiscal year is imposed on the fund.

■ Temporary increase in capitalization support

For over five years now, the tax credit for the acquisition of a class “A” or class “B” share or fractional share issued by Fondaction (hereafter called an “eligible share”) has been calculated on the basis of a higher rate. Increased from 15% to 25% for any eligible share acquired after May 31, 2009 and before June 1, 2015, the higher tax credit rate was intended to enable Fondaction to achieve an optimal level of capitalization of \$1.25 billion.

For a smoother transition, the tax credit rate for any eligible share acquired after May 31, 2015 and before June 1, 2016 will be set at 20%.¹⁰⁰

Currently, individuals who acquire eligible shares of Fondaction by means of a deduction from their pay receive, as such acquisitions are made, all or almost all of the tax credit to which such acquisitions can give rise, since their employers are authorized to take this tax relief into consideration in determining the amount of tax to deduct from their remuneration.

To better reflect the temporary increase in the rate of the tax credit for the acquisition of Fondaction shares, amendments will be made to the tax regulations to stipulate that, where the amount of tax an employer must deduct from an employee’s remuneration is not established according to an authorized mathematical formula, an amount equal to 100% of the amount deducted by the employer from the employee’s remuneration in respect of the employee’s acquisition of eligible shares after May 31, 2015 and before June 1, 2016 must be deducted from the amount of remuneration paid to the employee to calculate the amount of the employee’s pay subject to a source deduction.

Consequential amendments will also be made to the terms for calculating special taxes on the acquisition of replacement shares in conjunction with a share redemption to take advantage of the Home Buyers’ Plan or the Lifelong Learning Incentive Plan, and to the terms for calculating the penalty that can be applied when, in a fiscal year, Fondaction purchases by agreement class “A” shares of its capital stock and the total cost of the purchase exceeds 2% of its paid-up capital relating to shares making up its permanent capitalization.

■ Increase in the investment requirement

The investment requirement of Fondaction will be gradually increased so that the proportion of its eligible investments represents, for any fiscal year beginning after May 31, 2019, at least 65% of its average net assets for the preceding fiscal year.

100 For greater clarity, no limit will be imposed on the capital raised by Fondaction during the fiscal year.

TABLE A.11

Gradual increase in the investment requirement of Fondaction as of its 2015-2016 fiscal year⁽¹⁾

(per cent)

Current	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	As of 2020
60	61	62	63	64	65	65

(1) A fiscal year of Fondaction begins on June 1 of a year and ends on May 31 of the following year.

To reflect the fact that the investment requirement imposed on Fondaction will be gradually increased by five percentage points, changes will be made to the terms for calculating the penalty imposed on the fund if it does not meet its investment requirement.

More specifically, if Fondaction does not meet its investment requirement for a particular fiscal year beginning after May 31, 2015, it will not be able to issue class “A” or class “B” shares or fractional shares in the following fiscal year for a total consideration exceeding the following amount:

- 75% of the total consideration paid for class “A” and class “B” shares and fractional shares issued in the preceding fiscal year, excluding the total consideration paid for class “A” and class “B” shares or fractional shares acquired and paid by payroll deduction or account debit in accordance with Division V of the fund’s statute of incorporation or acquired under a subscription agreement entered into with an employer in favour of the employer’s employees, if eligible investments represent, on average:
 - less than 61%, but not less than 51%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2015 and ending on May 31, 2016,
 - less than 62%, but not less than 52%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning June 1, 2016 and ending on May 31, 2017,
 - less than 63%, but not less than 53%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2017 and ending on May 31, 2018,
 - less than 64%, but not less than 54%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2018 and ending on May 31, 2019,
 - less than 65%, but not less than 55%, of its average net assets for the preceding fiscal year, where the particular fiscal year begins after May 31, 2019;
- 50% of such consideration if eligible investments represent, on average:
 - less than 51%, but not less than 41%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2015 and ending on May 31, 2016,

- less than 52%, but not less than 42%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2016 and ending on May 31, 2017,
- less than 53%, but not less than 43%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2017 and ending on May 31, 2018,
- less than 54%, but not less than 44%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2018 and ending on May 31, 2019,
- less than 55%, but not less than 45%, of its average net assets for the preceding fiscal year, where the particular fiscal year begins after May 31, 2019;
- 25% of such consideration if eligible investments represent, on average:
 - less than 41%, but not less than 31%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2015 and ending on May 31, 2016,
 - less than 42%, but not less than 32%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2016 and ending on May 31, 2017,
 - less than 43%, but not less than 33%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2017 and ending on May 31, 2018,
 - less than 44%, but not less than 34%, of its average net assets for the preceding fiscal year, where the particular fiscal year is the year beginning on June 1, 2018 and ending on May 31, 2019,
 - less than 45%, but not less than 35%, of its average net assets for the preceding fiscal year, where the particular fiscal year begins after May 31, 2019.

However, if Fondation's eligible investments for a particular fiscal year represent, on average, less than 31%, 32%, 33%, 34% or 35%, as the case may be, of its average net assets for the preceding year, the fund will not be able to issue class "A" and class "B" shares or fractional shares in the following fiscal year.

Class "A" and class "B" shares and fractional shares acquired and paid by payroll deduction or account debit in accordance with Division V of the statute of incorporation of Fondation or acquired under a subscription agreement entered into with an employer in favour of the employer's employees will continue to be excluded from the application of this section.

☐ Measures relative to Capital régional et coopératif Desjardins

The mission of Capital régional et coopératif Desjardins is to marshal venture capital for Québec's resource regions and the cooperative movement.

So that this tax-advantaged fund carries out its mission, the fund's statute of incorporation provides that for each of its fiscal years, its eligible investments must represent, on average, at least 60% of its average net assets for the preceding fiscal year, and that at least 35% of that percentage must be made in eligible cooperatives or in entities located in Québec's resource regions.¹⁰¹

If Capital régional et coopératif Desjardins does not meet its investment requirement for a particular fiscal year, it becomes subject to a special tax.

With a view to increasing the contribution of Capital régional et coopératif Desjardins to the development of Québec and, more specifically, its resource regions, the investment requirement of Capital régional et coopératif Desjardins will be gradually increased so that the proportion of its eligible investments represents, for any fiscal year beginning after December 31, 2019, at least 65% of its average net assets for the preceding fiscal year, and that at least 35% of that percentage is made in eligible cooperatives or in entities located in Québec's resource regions.

TABLE A.12

Gradual increase in the investment requirement of Capital régional et coopératif Desjardins as of its 2016 fiscal year⁽¹⁾
(per cent)

	Current	2016	2017	2018	2019	As of 2020
General requirement	60	61	62	63	64	65
Regional requirement	21	21.35	21.7	22.05	22.4	22.75

(1) The fiscal year of Capital régional et coopératif Desjardins is from January 1 to December 31.

If Capital régional et coopératif Desjardins does not meet its new investment requirement, a penalty limiting its issue capacity will be imposed instead of a special tax.

101 For the purposes of the regional component of the investment requirement of Capital régional et coopératif Desjardins, the regions of Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie-Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay-Lac-Saint-Jean are considered resource regions. Moreover, for the purposes of this component, eligible investments are considered to have been made in entities located in Québec's resource regions if they were made after December 31, 2013 and before January 1, 2018 in an entity located in the regional county municipalites of Acton, Antoine-Labelle, Argenteuil, Coaticook, L'Islet, La Vallée-de-la-Gatineau, Matawinie, Montmagny, Papineau, Pontiac, Appalaches, Etchemins, Les Sources, Le Granit, Le Haut-Saint-François and Le Haut-Saint-Laurent.

More specifically, if Capital régional et coopératif Desjardins does not meet its investment requirement for a particular fiscal year beginning after December 31, 2015, the total subscription amount of shares and fractional shares issued for the capitalization period beginning in the following fiscal year may not exceed the following amount:

- 87.5% of the total subscription amount otherwise authorized for the capitalization period¹⁰² if, for the particular fiscal year:
 - the fund's eligible investments represent on average:
 - less than 61%, but not less than 51%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2016,
 - less than 62%, but not less than 52%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2017,
 - less than 63%, but not less than 53%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2018,
 - less than 64%, but not less than 54%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2019,
 - less than 65%, but not less than 55%, of its average net assets for the preceding fiscal year, where the particular fiscal year is subsequent to 2019,
 - or eligible investments made by the fund in eligible cooperatives or in entities located in Québec's resource regions represent on average:
 - less than 21.35%, but not less than 17.85%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2016,
 - less than 21.7%, but not less than 18.2%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2017,
 - less than 22.05%, but not less than 18.55%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2018,
 - less than 22.4%, but not less than 18.9%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2019,
 - less than 22.75%, but not less than 19.25%, of its average net assets for the preceding fiscal year, where the particular fiscal year is subsequent to 2019;
- 75% of the total subscription amount otherwise authorized for the capitalization period if, for the particular fiscal year:
 - the fund's eligible investments represent on average:

102 The amount that Capital régional et coopératif Desjardins may raise in any capitalization period beginning after February 29, 2016 corresponds to the lower of \$150 million and the amount of the reduction in paid-up capital attributable to all its shares and fractions and shares that are redeemed or purchased by agreement by the fund during its preceding capitalization period.

- less than 51%, but not less than 41%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2016,
 - less than 52%, but not less than 42%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2017,
 - less than 53%, but not less than 43%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2018,
 - less than 54%, but not less than 44%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2019,
 - less than 55%, but not less than 45%, of its average net assets for the preceding fiscal year, where the particular fiscal year is subsequent to 2019,
- or eligible investments made by the fund in eligible cooperatives or in entities located in Québec’s resource regions represent on average:
- less than 17.85%, but not less than 14.35%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2016,
 - less than 18.2%, but not less than 14.7%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2017,
 - less than 18.55%, but not less than 15.05%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2018,
 - less than 18.9%, but not less than 15.4%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2019,
 - less than 19.25%, but not less than 15.75%, of its average net assets for the preceding fiscal year, where the particular fiscal year is subsequent to 2019;
- 62.5% of the total subscription amount otherwise authorized for the capitalization period if, for the particular fiscal year:
- the fund’s eligible investments represent on average:
- less than 41%, but not less than 31%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2016,
 - less than 42%, but not less than 32%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2017,
 - less than 43%, but not less than 33%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2018,
 - less than 44%, but not less than 34%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2019,
 - less than 45%, but not less than 35%, of its average net assets for the preceding fiscal year, where the particular fiscal year is subsequent to 2019,

- or eligible investments made by the fund in eligible cooperatives or in entities located in Québec’s resource regions represent on average:
 - less than 14.35%, but not less than 10.85%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2016,
 - less than 14.7%, but not less than 11.2%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2017,
 - less than 15.05%, but not less than 11.55%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2018,
 - less than 15.4%, but not less than 11.9%, of its average net assets for the preceding fiscal year, where the particular fiscal year is 2019,
 - less than 15.75%, but not less than 12.25%, of its average net assets for the preceding fiscal year, where the particular fiscal year is subsequent to 2019;
- 50% of the total subscription amount otherwise authorized for the capitalization period if, for the particular fiscal year, the fund’s eligible investments represent, on average, less than 31%, 32%, 33%, 34% or 35%, as the case may be, of its average net assets for the preceding fiscal year, or eligible investments made in eligible cooperatives or in entities located in Québec’s resource regions represent, on average, less than 10.85%, 11.2%, 11.55%, 11.9% or 12.25%, as the case may be, of its average net assets for the preceding fiscal year.

2.8 Phasing out of restrictions on the granting to large businesses of the input tax refund

Under the Québec sales tax (QST) system, large businesses cannot claim an input tax refund (ITR) in respect of certain property and services acquired in the course of their commercial activities. The following property and services are subject to restrictions on the granting of an ITR:

- road vehicles of less than 3 000 kg that must be registered under the *Highway Safety Code*¹⁰³ to be driven on public highways;
- gasoline used to power the engine of such road vehicles;
- electricity, gas, combustibles and steam used for a purpose other than to produce movable property intended for sale;
- telephone service and other telecommunications services, except for 1 800-type services and Internet services;
- food, beverages and entertainment whose deductibility is limited under the *Taxation Act*.¹⁰⁴

103 CQLR, chapter C-24.2.

104 CQLR, chapter I-3.

Under the Comprehensive Integrated Tax Coordination Agreement between the Government of Canada and the Government of Quebec in respect of sales tax harmonization, the Québec government undertook to phase out these restrictions on ITRs for large businesses in equal annual proportions over a three-year period beginning no later than January 1, 2018.

To follow through on that undertaking, the QST system will therefore be changed to allow large businesses to claim an ITR in respect of property and services to which the restrictions currently apply, at the rate of 25% in 2018, 50% in 2019, 75% in 2020 and, ultimately, 100% as of 2021.

Thus, for each of these years, QST that becomes payable as of January 1 on acquisitions of property and services to which the restrictions apply may be included in the calculation of a large business's ITR, at the rate of 25%, 50%, 75% or 100%, depending on the year in question.

2.9 Temporary increase in the capital cost allowance rates for goods used in natural gas liquefaction

On February 19, 2015, the Department of Finance of Canada announced, in a news release, draft regulations to amend the *Income Tax Regulations* introducing additional capital cost allowance into the federal tax legislation in respect of property acquired after February 19, 2015 but before 2025 and used as part of an eligible liquefaction facility.¹⁰⁵

Briefly, the amendments to the *Income Tax Regulations*¹⁰⁶ stipulate that an additional capital cost allowance of 6% will be granted for eligible liquefaction buildings, raising the capital cost allowance rate for these buildings to 10%. Similarly, an additional capital cost allowance of 22% will be granted for eligible liquefaction equipment, raising the capital cost allowance rate in this regard to 30%.

The *Draft Regulations to Amend the Income Tax Regulations* also stipulate that the additional capital cost allowance amount a taxpayer may deduct in respect of buildings or equipment used as part of an eligible liquefaction facility for a taxation year will be limited to the taxpayer's income for the year from the taxpayer's eligible liquefaction activities in respect of the facility.

In general, the Québec tax system is harmonized with the federal tax system as regards capital cost allowance that may be claimed by a taxpayer in respect of buildings and in respect of equipment used as part of a liquefied natural gas facility. The Québec tax regulations will therefore be amended to incorporate, with adaptations based on its general principles, these amendments to the federal tax regulations.

105 DEPARTMENT OF FINANCE OF CANADA, *News Release 2015-016 – PM Announces Measure to Support Jobs and Growth in the LNG Industry*, February 19, 2015, www.fin.gc.ca/n15/15-016-eng.asp.

106 C.R.C., c. 945.

The amendments that will be made to Québec's tax regulations will be enacted only once any federal regulation giving effect to the measures retained has been passed, taking into account the technical changes that may be made to them before passage. These amendments will apply as of the same dates as those retained for the purposes of the federal measures with which they harmonize.

2.10 Measures to support mining exploration

□ Amendments to the *Taxation Act*

On March 1, 2015, the Department of Finance of Canada announced, in a news release, changes to federal taxation aimed at supporting Canadian mining.¹⁰⁷ These amendments pertain to the Mineral Exploration Tax Credit and the eligibility of certain expenses as Canadian exploration expenses.

Briefly, the news release stipulates that the 15% Mineral Exploration Tax Credit for investors in flow-through shares will be extended for one year, until March 31, 2016.

Québec tax legislation does not contain provisions corresponding to those relating to the Mineral Exploration Tax Credit under the federal tax legislation. Consequently, the Québec tax legislation will not be amended to incorporate the proposed amendment in that regard.

The news release also stipulates that amendments will be made to the federal tax rules so that costs associated with environmental studies and community consultations, which would otherwise give entitlement to treatment as Canadian exploration expenses, are not denied qualification as Canadian exploration expenses solely because they are a prerequisite for obtaining an exploration permit or licence. These amendments will apply to costs incurred after February 2015.

The Québec tax system being generally harmonized with the federal tax system as regards the qualification of certain expenses as Canadian exploration expenses, the *Taxation Act*¹⁰⁸ will be amended to incorporate, with adaptations based on its general principles, the amendments announced to be made to the federal tax legislation with respect to the qualification, as Canadian exploration expenses, of certain costs incurred for environmental studies and community consultations.

These amendments to the *Taxation Act* will be adopted only once any federal statute giving effect to the measures retained has been assented to, taking into account the technical changes that may be made to them before assent. These amendments will apply on the same date as that set for the purposes of the federal amendments with which they harmonize.

107 DEPARTMENT OF FINANCE OF CANADA, *News Release 2015-021 – Harper Government Announces New Measures to Support Canadian Mining*, March 1, 2015, www.fin.gc.ca/n15/15-021-eng.asp.

108 CQLR, chapter I-3. The news release of the Department of Finance of Canada was not accompanied by proposals setting forth the amendments to be made to the federal tax rules. Accordingly, should amendments pertaining to the qualification of certain expenses as Canadian exploration expenses be made to the *Income Tax Regulations* (C.R.C., c. 945), the harmonization amendments could be made to the *Regulation respecting the Taxation Act* (CQLR, chapter I-3, r.1).

❑ Consequential amendments to the *Mining Tax Act*

In general, the expenses comprising the cumulative exploration expense account for the purposes of the *Mining Tax Act*¹⁰⁹ correspond to the exploration expenses listed in paragraph c of section 395 of the *Taxation Act*¹¹⁰ that are attributable to a mineral substance in Québec.

Given the changes that will be made to the exploration expenses contemplated by this paragraph, and to maintain harmonization between the *Taxation Act* and the *Mining Tax Act* regarding the qualification of certain expenses as exploration expenses, the *Mining Tax Act* will be amended to incorporate, with adaptations based on its general principles, and subject to the requirement in the *Mining Tax Act* that the expenses be attributable to a mineral substance in Québec, the amendments announced to the *Taxation Act* as part of this budget speech with respect to the qualification, as exploration expenses, of certain expenses incurred for environmental studies and community consultations.¹¹¹

These amendments to the *Mining Tax Act* will be applicable on the same date as that set for the application of the amendments to the *Taxation Act* with which they are harmonized.

109 CQLR, chapter I-0.4.

110 In this regard, see the second paragraph of section 16.9 of the *Mining Tax Act*.

111 See the subsection “Amendments to the *Taxation Act*,” on page A.74.

3. REVISION OF TAX ASSISTANCE FOR BUSINESSES

3.1 Refundable tax credits for the production of multimedia titles

The refundable tax credit relating to the production of multimedia titles (hereafter called the “tax credit – general component”) and the refundable tax credit applying specifically to corporations whose activities consist chiefly in producing multimedia titles (hereafter called the “tax credit – specialized component”) pertain to the corporation’s qualified labour expenditure, to which is applied a percentage that depends on the category of multimedia titles produced by the corporation.

A corporation that wishes to claim the general component of the tax credit must obtain the required certificates from Investissement Québec for each of the multimedia titles for which it intends to claim the tax credit, while a corporation that plans to avail itself of the specialized component of the tax credit must obtain the required certificates from Investissement Québec regarding its activities as a whole.

Regarding both the tax credit – general component and the tax credit – specialized component, a corporation’s qualified labour expenditure is generally comprised of the following items:

- the salaries or wages attributable to an eligible multimedia title incurred and paid by a corporation in respect of its eligible employees of an establishment situated in Québec for production work relating to the multimedia title;
- the portion of the consideration paid by the corporation, under the terms of a contract, for eligible production work relating to the eligible multimedia title that was carried out on its behalf in the year, to a subcontractor with which the corporation was not dealing at arm’s length at the time the contract was entered into, that may reasonably be attributed to the salaries or wages attributable to the multimedia title that the subcontractor incurred and paid in respect of its eligible employees of an establishment situated in Québec;
- the aggregate of all amounts each of which represents one-half of the portion of the consideration paid by the corporation, under the terms of a contract, for eligible production work relating to the eligible multimedia title, to a subcontractor with which the corporation was dealing at arm’s length at the time the contract was entered into, that may reasonably be attributed to the eligible production work carried out on the corporation’s behalf in the year by the employees of an establishment of the subcontractor situated in Québec.

Furthermore, a qualified labour expenditure incurred by a qualified corporation in a taxation year must be reduced by the amount of any government assistance, any non-government assistance, and any profit or benefit attributable to it, according to the usual rules.

Given that a 20% reduction in tax assistance applied to certain measures intended for businesses was announced as part of the budget speech of June 4, 2014,¹¹² the tax assistance for the production of multimedia titles is now determined according to the parameters shown in the table below.

TABLE A.13

Existing categories and rates

	Base tax credit (depending on the eligible labour expenditure)	Plus: Premium for French (if applicable)
Category 1		
Multimedia title intended to be commercialized and that is not a vocational training title	24%	6%
Category 2		
Other multimedia title including a vocational training title	21%	—

So that the tax assistance in the form of the two tax credits achieves its objectives more effectively, the tax assistance will be reorganized to restore the former rates of the tax credits and introduce a limit applicable to each eligible employee.

□ Increase in the rates

The tax legislation will be amended to provide that the former rates of the tax credit – general component and tax credit – specialized components applicable to a qualified labour expenditure will be restored, according to the parameters in the following table.

112 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp. 33-34.

TABLE A.14

Categories and rates further to the amendments

	Base tax credit (depending on the qualified labour expenditure)	Plus: Premium for French (if applicable)
Category 1		
Multimedia title intended to be commercialized that is not a vocational training title	30.00%	7.50%
Category 2		
Other multimedia title, including a vocational training title	26.25%	—

❑ Limit per eligible employee

The tax legislation will be amended to provide that the qualified labour expenditure in respect of an eligible employee may not exceed \$100 000, calculated on an annual basis. Consequently, the maximum tax credit amount for a taxation year may not exceed \$37 500, \$30 000 or \$26 250 annually, as the case may be, per eligible employee.

Barring the exception described hereafter, this limit will apply to the tax credit – general component and the tax credit – specialized component that may be claimed by a corporation for a taxation year in respect of each eligible employee of the corporation or of a subcontractor with which the corporation was not dealing at arm's length at the time the subcontract was entered into.

For a taxation year of a corporation, the \$100 000 limit will not apply to a qualified labour expenditure incurred in the year and paid in respect of an eligible employee of the corporation or of a subcontractor with which the corporation was not dealing at arm's length, up to the number such eligible employees to whom the highest qualified labour expenditures, corresponding to 20% of the total number of eligible employees, will be attributable.¹¹³

Where applicable, the \$100 000 limit will be calculated on a prorated basis, according to the usual rules, based on the number of days in a taxation year or fiscal period, as the case may be, of the corporation or subcontractor with which the corporation is not dealing at arm's length, during which an employee of the corporation or subcontractor is an eligible employee of an establishment in Québec carrying out eligible production work relating to an eligible multimedia title.

113 When the result obtained after 20% is applied does not correspond to a whole number, the result will be adjusted to the nearest higher whole number if the decimal is above 4 and to the nearest lower whole number if the decimal is below 5.

Lastly, current rules will remain unchanged concerning the consideration paid by the corporation to a subcontractor with which it is dealing at arm's length for eligible production work relating to an eligible multimedia title.

❑ **Application date**

The amendments to the tax legislation will apply, in the case of both the tax credit – general component and tax credit – specialized component, to a qualified labour expenditure incurred after the day of the Budget Speech or to a qualified labour expenditure incurred as part of a contract entered into after the day of the Budget Speech, as the case may be.

For a corporation's taxation year that includes the day of the Budget Speech, the \$100 000 limit will be calculated, according to the usual rules, in proportion to the number of days in the taxation year that follow that day.

3.2 Refundable tax credit for the development of e-business and addition of a non-refundable tax credit

The refundable tax credit for the development of e-business (hereafter called the "TCEB") was introduced as part of the budget speech of March 13, 2008.¹¹⁴

Briefly, the TCEB, whose rate is 24%, is granted to a qualified corporation that pays salaries to eligible employees carrying out an eligible activity. However, the amount of the tax credit may not exceed \$20 000 per employee annually.¹¹⁵ In addition, the tax credit is temporary and is set to expire on December 31, 2025.¹¹⁶

The TCEB was implemented to provide tax assistance for specialized businesses that carry out innovative, high value-added activities in the information technology sector, chiefly in the fields of computer systems design and software publishing.¹¹⁷

Moreover, the TCEB seeks to consolidate this activity sector in Québec and support the growth of Québec businesses in all activity sectors that want to become more efficient and productive by incorporating into their business processes information technologies developed by specialized businesses.

114 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2008-2009 – Additional Information on the Budgetary Measures*, March 13, 2008, pp. A.79-A.85.

115 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, p. 56.

116 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Bulletin d'information 2013-7*, July 11, 2013, p. 10. Previously, this tax credit was to have expired on December 31, 2015.

117 *Act respecting the sectoral parameters of certain fiscal measures* (CQLR, chapter P-5.1), Schedule A, s. 13.4.

Thus, the planned end date of December 31, 2025 will be eliminated, since the TCEB is a tax measure whose effectiveness helps stimulate e-business development in Québec and foster the growth of Québec businesses actively involved in the information technology sector.

Changes will be made to the TCEB to exclude wages pertaining to certain government contracts from the base of the tax credit, and to define the notion of activity relating to e-business and set forth the rules applicable to the services supplied criterion. Lastly, a non-refundable tax credit will be introduced.

❑ Elimination of the TCEB end date

Currently, the eligibility period of the TCEB ends on December 31, 2025 and wages incurred by a corporation after that date will no longer give entitlement to the tax credit.

The tax legislation will be amended to eliminate that time limit.¹¹⁸ Consequently, a qualified corporation's qualified wages incurred after December 31, 2025 will continue to give entitlement to the TCEB, provided the other conditions otherwise applicable are met.

As a corollary, the *Act respecting the sectoral parameters of certain fiscal measures* (hereafter called the "sectoral act") will be amended to eliminate that time limit so that Investissement Québec may issue a certificate to a corporation for the purposes of the TCEB for a taxation year beginning after December 31, 2025.¹¹⁹

❑ Exclusion of wages relating to certain government contracts

The tax legislation will be amended to refocus the TCEB on its primary objectives, namely, to consolidate the development of the information technology sector in Québec as a whole, due to strong global competition and the risk that jobs in the sector will move to other jurisdictions, and to support the growth of Québec businesses that want to become more efficient and productive by incorporating into their business processes information technologies developed by specialized Québec businesses.

More specifically, the tax legislation will be amended to exclude from an employee's qualified wages, for the purposes of the TCEB, any portion of the wages that is attributable to the employee's duties for the employer in the performance of work relating to an agreement entered into between the employer and a government entity.

118 *Taxation Act* (CQLR, chapter I-3), s. 1029.8.36.0.3.79, first paragraph, definition of "eligibility period," as it will be amended further to the first extension of the TCEB announced in 2013. See note 116.

119 *Act respecting the sectoral parameters of certain fiscal measures*, Schedule A, s. 13.2, fifth para.

In that regard, a government entity means a Québec government department and an entity contemplated by section 2 of the *Tax Administration Act*,¹²⁰ such as Hydro-Québec, the Régie du logement, the Agence du Revenu du Québec and Investissement Québec.

This amendment will apply to wages incurred after September 30, 2015 by a qualified corporation in respect of an eligible employee that are attributable to the employee's duties performed in carrying out work relating to an agreement entered into with a government entity that is renewed or extended after that date.

❑ Changes to the notion of activities related to e-business and to the services supplied criterion

Since the implementation of the TCEB, a variety of changes have been made to the TCEB to protect its integrity and ensure that it contributes to achieving the government's economic objectives.

Of these changes, one was made to the TCEB to specify that activities must be related to e-business qualify for the tax credit.¹²¹

The sectoral act will be amended to stipulate that activities must be primarily related to e-business to qualify for the tax credit.¹²²

Moreover, the sectoral act will be amended to provide that activities carried on by employees of a qualified corporation will not be considered to be related to e-business, where the results of the activities are incorporated into property that is intended for sale or the purpose of the results concerns the operation of such property.

Similarly, the sectoral act will be amended to stipulate that the gross income from activities carried on by a qualified corporation's employees must not be taken into account for the purposes of the services supplied criterion, which the corporation must satisfy to qualify for the TCEB,¹²³ where the results of the activities are incorporated into property that is intended for sale or the purpose of the results concerns the operation of such property.

These amendments will apply to a qualified corporation's taxation year beginning after the day of the Budget Speech.

120 CQLR, chapter A-6.001.

121 MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2008-4*, May 15, 2008, p. 5.

122 *Act respecting the sectoral parameters of certain fiscal measures*, Schedule A, s. 13.12, first para., subpara. 1°.

123 *Act respecting the sectoral parameters of certain fiscal measures*, Schedule A, s. 13.6.

❑ Introduction of a non-refundable tax credit for the development of e-business

In the context of the reduction of tax assistance announced as part of Budget Speech 2014-2015, the TCEB rate was lowered from 30% to 24%.¹²⁴

To support Québec businesses specialized in the information technology sector and help keep high value-added jobs in this sector in Québec, the overall level of tax assistance for e-business development activities will be restored to 30% by adding a new, 6% non-refundable tax credit to the existing TCEB rate of 24%.

All of the conditions in the sectoral act applicable to the TCEB will apply to the non-refundable tax credit. Thus, for a taxation year, the certificates used for the purposes of the new, non-refundable tax credit will be those used for the purposes of the TCEB.¹²⁵

Similarly, all of the conditions in the tax legislation applicable to the TCEB will apply to the non-refundable tax credit, subject to the rules for calculating the new tax credit.

Thus, the tax legislation will be amended so that, for a taxation year, qualified wages paid by a qualified corporation to an eligible employee that give entitlement to the TCEB for the taxation year will also give entitlement to the new refundable tax credit, corresponding to 6% of the wages.

For greater clarity, qualified wages paid to an eligible employee for the purposes of the new refundable tax credit will be capped at \$83 333, the applicable wages under the TCEB.¹²⁶ As a result, the new, non-refundable tax credit may not exceed \$5 000 per employee, calculated on an annual basis. In addition, the amount of qualified wages will be reduced by the amount of any government assistance, any non-government assistance, and any profit or benefit attributable to such wages.

A qualified corporation will be required to claim the non-refundable tax credit within the same time limits as for the TCEB.¹²⁷

124 See note 115.

125 *Act respecting the sectoral parameters of certain fiscal measures*, Schedule A, s. 13.2.

126 *Taxation Act*, s. 1029.8.36.0.3.79, first para., definition of “qualified wages,” as it will be amended further to Budget Speech 2014-2015, of June 4, 2014. See note 115.

127 Changes to these time limits are announced as part of this budget speech. See subsection 4.3.

The portion of the tax credit that does not reduce the income tax payable by a qualified corporation for the taxation year to which the tax credit applies may be carried back to the preceding three taxation years or forward to the following 20 taxation years. However, this carry-over is not allowed for a taxation year for which the corporation is not entitled to the TCEB or for a taxation year ended before the day following the day of the Budget Speech.

In that regard, the necessary adaptations will be made to the tax legislation to enable a qualified corporation to carry back the unused portion of the tax credit for a taxation year, where the corporation initially claimed the tax credit within the aforementioned time limits.¹²⁸

In addition, like the TCEB, the new, non-refundable tax credit will be recaptured by means of a special tax, where the qualified wages in respect of which the tax credit was granted are refunded to a qualified corporation in whole or in part, or a certificate is subsequently revoked. Thus, the certificates for the purposes of the TCEB that a qualified corporation must include with its tax return for a taxation year will also be used for the purposes of the new, non-refundable tax credit.

Lastly, the tax legislation will be amended to ensure that no portion of a particular expenditure considered for the purposes of the new, non-refundable tax credit may be considered for the purposes of a refundable tax credit other than the TCEB.¹²⁹

These amendments will apply to wages incurred by a qualified corporation in respect of an eligible employee after the day of the Budget Speech.

3.3 Refundable tax credit for Québec film and television production

In general, the refundable tax credit for Québec film and television production applies to a qualified labour expenditure incurred by a qualified corporation that produces a Québec film¹³⁰ in respect of which the Société de développement des entreprises culturelles (SODEC) issued a certificate recognizing the film to which it applies as an eligible Québec film or television production.

128 *Taxation Act*, ss. 1012 and 1012.1. Currently, a corporation must request to carry back an amount relative to a taxation year no later than its filing due-date for the taxation year.

129 *Taxation Act*, s. 1029.6.0.1.

130 For greater clarity, “film” includes a television program.

Given that a 20% reduction in tax assistance applied to certain measures for businesses was announced as part of the budget speech of June 4, 2014,¹³¹ this tax credit is now equal to 36% or 28% of the qualified labour expenditure incurred to produce the film (hereafter called the “base rates”). However, the labour expenditure giving rise to the tax credit may not exceed 50% of the film’s production costs.

Thus, the 36% base rate applies to the labour expenditure related to the production of certain feature-length, medium or short films, certain broadcasts intended for young people and certain documentaries, provided they are in French; this also applies to giant-screen films, regardless of the language (hereafter called “French-language or giant-screen production”).

The 28% base rate applies to the production of other categories of eligible films.

In addition, the expenditure related to the carrying out of computer animation and special effects, other than such an expenditure incurred in the context of a French-language or giant-screen production, gives rise to an 8% increase in the expenditure (hereafter called the “increase for computer animation and special effects”).

Specific assistance (hereafter called the “regional increase”) is therefore granted to producers established outside the Montréal region when the film is made in the regions. This assistance consists of an 8% increase in the labour expenditure attributable to services provided in Québec, outside the Montréal region, in the course of making a French-language or giant-screen production. For the other categories of eligible films, this increase may reach 16% of the same labour expenditure.

Lastly, an 8% increase (hereafter called the “increase for no public financial assistance”) calculated on the labour expenditure giving rise to the tax credit is allowed for a production that is eligible for the tax credit and is a feature film of fiction¹³² or a single documentary, provided it is not eligible for any financial assistance from a public body.

However, the maximum tax assistance that may be obtained may not exceed 52% of the qualified labour expenditure.

131 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp. 44-47.

132 A miniseries or a series each of whose episodes is a fiction production lasting a minimum of 75 minutes is an eligible production for the purposes of this increase.

The following table shows the current rates of the tax credit for Québec film or television production.

TABLE A.15

Base rates and rates of current increases
(per cent)

	Rate of the tax credit					Labour expenditure cap	Effective rate ⁽³⁾	
	Base rate	Increase for computer animation and special effects	Regional increase	Increase for no public financial assistance ⁽¹⁾	Maximum rate		As a % of production expenses	
							Minimum	Maximum
French-language or giant-screen production	36	—	8	8	52	50	18	26 ⁽⁴⁾
Other production	28	8	16	8	52 ⁽²⁾	50	14	26 ⁽⁵⁾

- (1) This increase applies to a Québec film or television production that is a feature film of fiction or a single documentary that has not received any financial assistance from a public organization.
(2) Where all or part of the labour expenditure gives rise to more than one increase, the total cannot exceed 52%.
(3) The effective rate is obtained by multiplying the rate of the tax credit, expressed as a function of labour expenditure, by the rate of the cap, expressed as a function of production expenses.
(4) To determine the maximum assistance, it is assumed that the labour expenditure giving rise to the base rate also gives rise to the regional increase and the increase for no public financial assistance.
(5) To determine the maximum assistance, it is assumed that the labour expenditure giving rise to the base rate also gives rise to the regional increase and, as the case may be, for computer animation and special effects or the increase for no public financial assistance.

To further encourage Québec’s film and television industry, while ensuring that the tax assistance granted through the tax credit targets first and foremost original Québec productions, the tax credit will be reorganized so that a higher base rate applies to a film, including a television program, that is not developed from a foreign concept or foreign format.

□ New category of eligible films

Thus, the *Act respecting the sectoral parameters of certain fiscal measures* (hereafter called the “sectoral act”)¹³³ will be amended to introduce a new category of films.

This category of films will include any film that is otherwise eligible according to the usual rules for the purposes of the base tax credit, but that is developed from a foreign concept or foreign format (hereafter called a “film adapted from a foreign format”).

A film adapted from a foreign format means:

- in the case of a television production, a production that grew out of a television concept created outside Québec and in respect of which a licence for adaptation in Québec was issued; the licence indicates the aspects of the format of the program or episodes comprising a series, such as the title, idea, structure and subjects, the description of the plot and characters, the target audience and the duration of each episode;
- in the case of a film production, a production the rights to which were granted for adaptation in Québec and which is a new version of a film previously brought to the screen that is not itself a remake of another work, such as a literary or theatre work.

The sectoral act will also be amended to stipulate that, in the case of a film adapted from a foreign format, the favourable advance ruling from SODEC and the qualification certificate issued by it in respect of the film must indicate that it is a film adapted from a foreign format.

□ Increase in the base rates

The tax legislation will be amended to provide for the increase in the base rates of the refundable tax credit for Québec film or television production applicable to an eligible film that is not a film adapted from a foreign format.

The existing base rates will continue to apply to an eligible film that is a film adapted from a foreign format, and the various rate increases will remain unchanged relative to all eligible films.

Thus, the applicable rates will now be those indicated in the following table.

TABLE A.16

Base rates and rate increases after amendments⁽¹⁾
(per cent)

	Rate of the tax credit					Labour expenditure cap	Effective rate	
	Base rate	Increase for computer animation and special effects	Regional increase	Increase without public financial assistance	Maximum rate		As a % of production expenses	Minimal
	As a % of labour expenditure							
French-language or giant-screen production that was not adapted from a foreign format	40	—	8	8	56	50	20	28
French-language or giant-screen production that was adapted from a foreign format	36	—	8	8	52	50	18	26
Other production that was not adapted from a foreign format	32	8	16	8	56	50	16	28
Other production that was adapted from a foreign format	28	8	16	8	52	50	14	26

(1) The notes of the preceding table apply, with the necessary adaptations to this table.

❑ Application date

The amendments will apply to a film or television production for which an application for an advance ruling, or an application for a certificate, if an application for an advance ruling was not filed earlier, is submitted to SODEC after the day of the Budget Speech.

❑ Other changes

The refundable tax credit for Québec film and television production was introduced in 1990 and since its introduction, except for the five-year period from 1998 to 2003, access to it has been limited to independent producers.

Accordingly, a corporation that holds a broadcast licence issued by the Canadian Radio-television and Telecommunications Commission (hereafter called a “broadcaster”) is not eligible for the tax credit.

Additional rules are planned to ensure the integrity of the rule excluding broadcasters and foster fairness among producers.

Thus, a corporation that, at any time in a taxation year for which it intends to claim the tax credit or the 24-month period preceding it, is associated¹³⁴ with a broadcaster is ineligible for the tax credit unless it holds for the year a certificate issued by SODEC certifying that it is a corporation associated with a broadcaster.

The certificate issued to a corporation for a taxation year certifying that it is associated with a broadcaster certifies that more than 50% of all of its production expenses of the last three taxation years, preceding the taxation year, during which a film was made, were incurred in relation to films broadcast by a broadcaster with which the corporation is not associated.

This measure is designed to allow a corporation to receive the tax credit despite its association with a broadcaster, but only for eligible films it makes for corporations other than the broadcaster with which it is associated.

In addition, remuneration paid, directly or indirectly, by an eligible corporation to a corporation that is a broadcaster or to a corporation that is associated with a broadcaster for services supplied in relation to any stage of production of the film is not part of the labour expenditure of the qualified corporation for the purposes of the tax credit. The scope of this exclusion does not, however, extend to remuneration paid to a subcontractor associated with a broadcaster for services supplied exclusively at the postproduction stage of the film.

134 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin* 2014-5, February 28, 2014, pp. 5-8

The tax legislation provides for various criteria for determining whether two persons are associated; these criteria are based on the control a person or group of persons exercises over a corporation.

The tax legislation and the sectoral act will be amended to restore the former rules pertaining to the non-arm's length criterion, in replacement of the rules pertaining to the associated corporations criterion.

Lastly, consequential amendments will be made to the tax legislation and the sectoral act with respect to the refundable tax credit for film production services.

- **Application dates**

- **Tax legislation**

The amendments to the tax legislation respecting a corporation will apply to a taxation year beginning after the day of the Budget Speech, relative to a labour expenditure or production expenses, as the case may be, incurred in such a taxation year.

- **Sectoral act**

The amendments to the sectoral act respecting a corporation will apply to a taxation year beginning after the day of the Budget Speech.

3.4 Refundable tax credit for sound recording production

The refundable tax credit for sound recording production applies to the labour expenditure relating to certain services provided in Québec and inherent in eligible property that is a sound recording, a digital audiovisual recording or a clip.

Given that a 20% reduction in tax assistance applied to certain measures for businesses was announced as part of the budget speech of June 4, 2014,¹³⁵ this tax credit is now equal to 28% of the qualified labour expenditure, which, however, is limited to 50% of the expenses directly attributable to the production of the eligible property concerned.

Due to advances in technology and the constant advent of new digital distribution methods, which are transforming the music market in particular, Québec's sound recording industry is in need of more support.

Consequently, the tax legislation will be amended to restore the former rate of 35% applicable to a qualified labour expenditure.

135 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, p. 49.

This amendment will apply to eligible property for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was filed earlier regarding the property, is submitted to SODEC after the day of the Budget Speech.

3.5 Refundable tax credit for the production of performances

The refundable tax credit for the production of performances applies to the labour expenditure attributable to services provided and inherent in the production of an eligible performance.

Given that a 20% reduction in tax assistance applied to certain measures for businesses was announced as part of the budget speech of June 4, 2014,¹³⁶ this tax credit is now equal to 28% of the qualified labour expenditure, which, however, is limited to 50% of the expenses to produce the performance.

The maximum amount of the tax credit for an eligible performance is \$1 million if the eligible performance is a musical comedy, and \$600 000 otherwise.

A qualified corporation that intends to claim the tax credit for a performance must obtain from SODEC, for each of the following eligibility periods, a favourable advance ruling, if applicable, and a certificate to the effect that the performance is recognized as an eligible performance:

- the period from the preproduction stage to the end of the first year following the first showing before an audience (hereafter called the “initial eligibility period”);
- the period covering the second year following the first showing before an audience;
- the period covering the third year following the first showing before an audience.

So that the tax assistance provided by means of the tax credit gives more support to the sectors needing it, the tax credit will be reorganized by restoring the former parameters, subject to a new, lower cap applicable to an eligible performance that is a comedy show.

Consequently, the tax legislation will be amended to provide for the following parameters:

- the tax credit rate applicable to a qualified labour expenditure will be 35%;

136 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp. 49-50.

- the maximum tax credit in respect of an eligible performance will be:
 - \$1.25 million, where the eligible performance is a musical comedy,
 - \$350 000, where the eligible performance is a comedy show,
 - \$750 000 otherwise.

The increase in the tax credit rate will apply to an eligibility period of an eligible performance beginning after the day of the Budget Speech for which an application for an advance ruling, or an application for a certificate if an application for an advance ruling was not filed earlier in respect of the eligibility period, is submitted to SODEC after the day of the Budget Speech.

The increase in the cap on the tax credit will apply to an eligible performance, other than an eligible performance that is a comedy show, one of whose eligibility periods is not completed on the day of the Budget Speech.

The decrease in the cap on the tax credit will apply to an eligible performance that is a comedy show for which an application for an advance ruling in relation to the initial eligibility period, or an application for a certificate if no application for an advance ruling was filed earlier regarding that period, is submitted to SODEC:

- after the day of the Budget Speech, where SODEC considers that the work on the production of the performance was not sufficiently advanced on the day of the Budget Speech;
- after June 30, 2015, otherwise.

3.6 Refundable tax credit for film dubbing

The refundable tax credit for film dubbing applies to the expense of dubbing an eligible film, which consists of the labour expenditure relating to certain services provided in Québec and inherent in the process of dubbing film or television productions.

Given that a 20% reduction in tax assistance applied to certain measures for businesses was announced as part of the budget speech of June 4, 2014,¹³⁷ this tax credit is now equal to 28% of a corporation's qualified expenditure for film dubbing, which, however, is limited to 45% of the consideration paid to the corporation for carrying out the dubbing contract, excluding the goods and services tax and the Québec sales tax.

137 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp. 48-49.

Because of stiff foreign competition, Québec's film dubbing industry is fragile and is in need of more support.

Consequently, the tax legislation will be amended to restore the former rate of 35% applicable to the qualified expenditure for film dubbing.

This amendment will apply to an eligible production whose dubbing is completed after the day of the Budget Speech.

3.7 Refundable tax credit for book publishing

The refundable tax credit for book publishing applies to the labour expenditure relating to certain services provided in Québec and inherent in publishing an eligible book or eligible group of books.

Given that a 20% reduction in tax assistance applied to certain measures for businesses was announced as part of the budget speech of June 4, 2014,¹³⁸ this tax credit is now equal to:

- 28% of the qualified labour expenditure regarding the preparation costs and digital version publishing costs of an eligible book or eligible group of books, which, however, is limited to 50% of such costs;
- 21.6% of the qualified labour expenditure regarding the printing and reprinting costs of such a book or group of books, which, however, is limited to 33 ⅓% of such costs.

The maximum amount of the tax credit for an eligible book or a book that is part of an eligible group of books is \$350 000.

Because of advances in technology that compel publishers to put out both a paper and a digital version of the same book, and stiff competition from foreign publishers, Québec's book industry is in need of more support.

Consequently, the tax legislation will be amended to restore the former parameters. Thus:

- the tax credit rates applicable to a qualified labour expenditure will be 35% and 27%, respectively;
- the maximum tax credit for an eligible book or a book that is part of an eligible group of books will be \$437 500.

These amendments will apply to an eligible book or a book that is part of an eligible group of books for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was filed earlier regarding the book or eligible group of books, is submitted to SODEC after the day of the Budget Speech.

138 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp. 50-51.

3.8 Tax credit for the production of multimedia environments or events staged outside Québec

The refundable tax credit for the production of multimedia environments or events staged outside Québec applies to the labour expenditure relating to certain services provided in Québec and inherent in making an eligible production staged outside Québec, which must offer an educational or cultural experience for entertainment purposes.

Moreover, the labour expenditure must have been incurred after March 20, 2012 and before January 1, 2016.

Given that a 20% reduction in tax assistance applied to certain measures for businesses was announced as part of the budget speech of June 4, 2014,¹³⁹ this tax credit is now equal to 28% of the qualified labour expenditure, which, however, is limited to 50% of expenses directly attributable to making the eligible production concerned.

The maximum tax credit for an eligible production is \$280 000.

The tax credit was introduced in 2012 to support the international growth potential of certain Québec companies. However, because of the competitive tax environment in which companies claiming the tax credit work, Québec's industry for the production of multimedia environments or events is in need of more support.

Consequently, the tax legislation will be amended to restore the former parameters and eliminate the end date of the tax credit. Thus:

- the tax credit rate applicable to a qualified labour expenditure will be 35%;
- the maximum tax credit for an eligible production will be \$350 000;
- the tax credit will also apply to a qualified labour expenditure incurred after December 31, 2015.

The amendments respecting the rates and cap of the tax credit will apply to an eligible production for which an application for an advance ruling, or an application for a certificate if an application for an advance ruling was not filed earlier, is submitted to SODEC after the day of the Budget Speech.

139 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, p. 51.

3.9 Refundable tax credit for international financial centres and addition of a non-refundable tax credit

The refundable tax credit for international financial centres was introduced as part of the budget of March 30, 2010.¹⁴⁰ It is intended to encourage businesses specializing in international financial transactions to locate and develop in the Montréal urban agglomeration.

An international financial centre (IFC)¹⁴¹ means a business or part of a business established in the urban agglomeration of Montréal all of whose activities concern qualified international financial transactions (QIFTs).¹⁴²

Briefly, a qualified corporation that carries on a business recognized as an IFC by the Minister of Finance may claim a refundable tax credit, for a taxation year, representing 24% of qualified wages incurred for the year in respect of eligible employees.¹⁴³ However, the qualified wages of an eligible employee may not exceed \$66 667 annually. The tax credit may therefore reach up to \$16 000 annually per eligible employee.¹⁴⁴

To be eligible, an employee must work full time for the IFC and devote at least 75% of work time to carrying out QIFTs¹⁴⁵.

In addition, a foreign specialist¹⁴⁶ working for an IFC operated by a qualified corporation may claim a tax holiday, for a period not exceeding five years, in the form of a deduction in the calculation of the foreign specialist's taxable income.

Essentially, the deduction represents a fraction, expressed as a percentage of the foreign specialist's total income, equal to 100% for the first two years of the tax holiday period, and to 75%, 50% and 37.5% for the third, fourth and fifth years, respectively, of the period.¹⁴⁷

140 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2010-2011 – Additional Information on the Budgetary Measures*, March 30, 2010, pp. A.53-A.62.

141 *Act respecting international financial centres* (CQLR, chapter C-8.3), s. 6.

142 *Act respecting international financial centres*, s. 7.

143 Taxation Act (CQLR, chapter I-3), s. 1029.8.36.166.62.

144 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp. 40-41. Previously, this cap was \$20 000 and the rate was 30%.

145 *Act respecting the sectoral parameters of certain fiscal measures* (CQLR, chapter P-5.1), Schedule E, s. 2.9.

146 *Act respecting the sectoral parameters of certain fiscal measures*, Schedule E, s. 3.4.

147 *Taxation Act*, s. 737.16.

Major changes will be made to the refundable tax credit for IFCs, so as to almost fully replace it by a non-refundable tax credit, except with respect to back office activities, which, subject to certain conditions, may be considered QIFTs¹⁴⁸ and will continue to give entitlement to a refundable tax credit.

❑ Maintenance of the refundable tax credit for IFCs in respect of back office activities

The *Act respecting the sectoral parameters of certain fiscal measures* (hereafter called the “sectoral act”) will be amended to stipulate that the Minister of Finance may no longer issue a qualification certificate or annual certificate for the purposes of the refundable tax credit for IFCs.

However, the Minister of Finances will be able to continue issuing qualification certificates and annual certificates solely in respect of back room activities that qualify as QIFTs.

Thus, the sectoral act will be amended to enable a qualified corporation operating a business all of whose activities consist of back room activities that qualify as QIFTs¹⁴⁹ to obtain a certificate recognizing the business as an IFC and the annual certificate required for the purposes of the refundable tax credit for IFCs.

In that regard, an annual certificate is issued for the purposes of the refundable tax credit only if, among other things, the IFC’s activities required at all times the work of at least six eligible employees.¹⁵⁰

That condition is met, where, for all or part of a taxation year, as the case may be, a total of six or more eligible employees worked full time for an IFC in respect of which a valid certificate was issued for the purposes of the refundable tax credit or performed their duties for an IFC, operated by the same corporation, in respect of which a valid certificate for the purposes of the new, non-refundable tax credit for IFCs, described hereafter, was issued.

Moreover, the qualification certificate and annual certificate in respect of an employee working full time for an IFC will be issued only if the employee devotes at least 75% of work time to carrying out back room activities that qualify as QIFTs.

All of the conditions in the sectoral act pertaining to the refundable tax credit will be maintained, with the necessary adaptations to take into account these amendments.

148 *Act respecting international financial centres*, s. 7, para. 22°.

149 *Ibid.*

150 *Act respecting the sectoral parameters of certain fiscal measures*, Schedule E, s. 2.6.

In this context, qualification certificates and annual certificates that are issued by the Minister of Finance after the date of application of these amendments will specifically indicate that the scope of these documents is limited to back office activities that qualify as QIFTs for the purposes of the refundable tax credit for IFCs.

■ **Application date**

These amendments will apply to a taxation year of a corporation beginning after the day of the Budget Speech.

A corporation and an employee that, before the date of application of the amendments, already hold certificates for the purposes of the refundable tax credit for IFCs will be able to keep the certificates for the purposes of the refundable tax credit.

However, annual certificates attendant on these qualification certificates that are issued for a taxation year of a corporation beginning after the date of application of the amendments will specify that their scope is limited to back office activities that qualify as QIFTs.

For greater clarity, a foreign specialist who devotes at least 75% of work time to the operations of an IFC all of whose activities consist of back office activities that qualify as QIFTs may continue to claim the aforementioned tax holiday.¹⁵¹

□ **Replacement of the refundable tax credit for IFCs by a non-refundable tax credit for activities other than back room activities**

■ **Tax legislation**

The tax legislation will be amended to enable a qualified corporation operating a business recognized as an IFC by the Minister of Finance to deduct from its income tax otherwise payable for a taxation year an amount representing 24% of qualified wages incurred by the corporation for the year in respect of its eligible employees.

A qualified corporation operating a business all of whose activities qualify as QIFTs, except for those that consist of back office activities qualifying as QIFTs,¹⁵² will be able to claim the new, non-refundable tax credit.

In that regard, all of the conditions contained in the tax legislation that pertain to the refundable tax credit for IFCs will apply to the new, non-refundable tax credit, with the necessary adaptations.

151 See note 146.

152 See note 148.

For greater clarity, qualified wages paid to an eligible employee for the purposes of the new, non-refundable tax credit will be capped at \$66 667, the same cap applicable to the refundable tax credit for IFCs,¹⁵³ with the result that the new, non-refundable tax credit may not exceed \$16 000 per employee, calculated on an annual basis. Qualified wages will be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit attributable to the wages.

A qualified corporation will be required to claim the non-refundable tax credit within the same time periods as those for the refundable tax credit for IFCs.¹⁵⁴

Moreover, the portion of the tax credit that does not reduce a qualified corporation's income tax payable for a taxation year to which the tax credit applies may be carried back three taxation years and carried forward 20 years. However, this carry-over is not allowed for a taxation year for which the corporation does not hold a valid certificate for the purposes of the non-refundable tax credit or for a taxation year ended before the day following the day of the Budget Speech.

The necessary adaptations will be made to the tax legislation so that a qualified corporation may request to carry back the unused portion of the tax credit for a taxation year when it first claims the tax credit within the aforementioned time periods.¹⁵⁵

Moreover, like the refundable tax credit for IFCs, the new, non-refundable tax credit will be recaptured by means of a special tax, where qualified wages in respect of which the tax credit is granted are refunded to a qualified corporation, in whole or in part, or a qualification certificate or an annual certificate is subsequently revoked.

Lastly, an amendment will be made to the tax legislation to ensure that no portion of a particular expenditure considered for the purposes of the new, non-refundable tax credit may be considered for the purposes of the refundable tax credit.¹⁵⁶

A qualified corporation must include with its tax return for a taxation year the certificates issued by the Minister of Finance for the purposes of the new, non-refundable tax credit.

These amendments will apply to a qualified corporation's taxation year beginning after the day of the Budget Speech.

153 *Taxation Act*, s. 1029.8.36.166.61, definition of "qualified wages."

154 These time periods have been changed as part of the Budget Speech. See subsection 4.3.

155 *Taxation Act*, ss. 1012 and 1012.1. Currently, a corporation must request to carry back an amount relative to a taxation year no later than its filing due-date for the taxation year.

156 *Taxation Act*, s. 1029.6.0.1.

■ Sectoral parameters

The sectoral act will be amended to enable a qualified corporation operating a business all of whose activities qualify as QIFTs,¹⁵⁷ except for those that consist of back office activities qualifying as QIFTs,¹⁵⁸ to obtain a certificate recognizing the business as an IFC, as well as the attendant annual certificate, for the purposes of the new, refundable tax credit.

As indicated above, an IFC's activities must require at all times the work of at least six eligible employees.

That condition is met, where, for all or part of a taxation year, as the case may be, a total of six or more eligible employees worked full time for an IFC in respect of which a valid certificate was issued for the purposes of the new, non-refundable tax credit or performed their duties for an IFC, operated by the same corporation, in respect of which a valid certificate for the purposes of the refundable tax credit for IFCs, described hereafter, was issued.

Accordingly, the qualification certificate and annual certificate in respect of an employee working full time for an IFC will be issued only if the employee devotes at least 75% of work time to carrying out activities that qualify as QIFTs, except for those that consist of back office activities qualifying as QIFTs.

All of the conditions contained in the sectoral act that pertain to the refundable tax credit for IFCs will apply to the new, non-refundable tax credit, with the necessary adaptations.

Qualification certificates and annual certificates issued by the Minister of Finance will specifically indicate that the scope of these documents is limited to the application of the new, non-refundable tax credit for IFCs.

These amendments will apply to a corporation's taxation year beginning after the day of the Budget Speech.

A corporation and an employee that, before the date of application of the amendments, already hold certificates for the purposes of the refundable tax credit for IFCs will be able to keep the certificates for the purposes of the new, non-refundable tax credit for IFCs.

However, annual certificates attendant on these qualification certificates that are issued for a corporation's taxation year beginning after the date of application of the amendments will specify that their scope is limited to the application of the new, non-refundable tax credit for IFCs.

157 See note 142.

158 See note 148.

For greater clarity, a foreign specialist who devotes at least 75% of work time to the operations of an IFC all of whose activities qualify as QIFTs, except those that consist of back room activities qualifying as QIFTs, may continue to claim the tax holiday described above.¹⁵⁹

159 See note 146.

4. MEASURES TO ENSURE THE INTEGRITY OF THE TAX SYSTEM

4.1 Interposition of a trust or partnership for the purposes of preferential tax measures

Over the years, the government has brought in tax assistance measures to support and direct Québec's economic development and promote Québec's cultural identity.

These preferential tax measures are generally in the form of refundable tax credits, but they can also be non-refundable tax credits.

Several of these measures require the intervention of a sectoral body other than Revenu Québec to evaluate, among other things, the eligibility of a corporation or an activity according to sectoral parameters that the body is responsible for administering.

Accordingly, to ensure the achievement of the government's objectives and adequately target the businesses and activities covered by such tax measures, the tax¹⁶⁰ and sectoral¹⁶¹ legislation contains several integrity rules that call into play the notions "control of a corporation," "persons not dealing at arm's length," "associated corporation" or "corporation exempt from tax."

Some of these integrity rules are either general in scope,¹⁶² or specific in scope,¹⁶³ to limit eligibility for a preferential tax measure.

Other integrity rules bear more narrowly on certain characteristics, other than eligibility, such as adjustment of the level of tax assistance according to the financial size of a corporation.¹⁶⁴

160 *Taxation Act* (CQLR, chapter I-3).

161 *Act respecting the sectoral parameters of certain tax measures* (CQLR, chapter P-5.1), which incorporates, by reference, sectoral parameters included in the *Act respecting international financial centres* (CQLR, chapter C-8.3) and the *Cooperative Investment Plan Act* (CQLR, chapter R-8.1.1).

162 See, for example, the general rule enacted in section 1029.6.0.1.7 of the *Taxation Act*, which limits eligibility for the refundable tax credits in the event of the interposition of a trust or partnership.

163 See, for example, the rule enacted in section 737.18.24 of the *Taxation Act*, concerning the calculation of the paid-up capital of a corporation that is a member of an associated group, as it applied to the tax holiday available to a corporation carrying on a manufacturing or processing business in the resource regions. See also the rule enacted in section 6.4 of Schedule E to the *Act respecting the sectoral parameters of certain fiscal measures*, which limits a corporation's eligibility for the refundable tax credit for new financial services corporations.

164 See, for example, the rules enacted in sections 1029.7.2, 1029.8.36.10 and 1029.8.36.166.43 of the *Taxation Act*, concerning determination of the level of tax assistance applicable to these refundable tax credits.

While these integrity rules were introduced successively into the legislation, they are interrelated because of their common goal, which is to ensure compliance with the spirit and purpose of the preferential tax measures.

However, planning that involves the interposition of a trust or partnership can sometimes, while satisfying the letter of the law, abuse its spirit and purpose.

Consequently, amendments will be made to the legislation to improve the consistency of the integrity rules pertaining to preferential tax measures in the more specific context of legal structures involving the interposition of a trust or partnership.

In addition, amendments will be made to the tax legislation regarding tax treatment, where an activity is allowed to be carried on through a partnership for the purposes of certain refundable tax credits.

□ Introduction of a presumption relative to the attributes of a trust or partnership for the purposes of preferential tax measures

To counteract legal structures involving the interposition of a trust or partnership that can prevent the integrity rules pertaining to preferential tax measures from achieving the objective underlying their implementation, a new, general integrity rule will be introduced.

More specifically, the tax legislation will be amended to deem the attributes of a trust or partnership to be those of a corporation for the purposes of the integrity rules pertaining to preferential tax measures that call into play the notions “control of a corporation,” “persons not dealing at arm’s length,” “associated corporation” or “corporation exempt from tax,” whether to determine eligibility for one of the measures or to determine a specific aspect, such as the level of tax assistance, of one of the measures.

In that regard, “preferential tax measures” means the refundable tax credits included in Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act* and the new, non-refundable tax credits for the TCEB¹⁶⁵ and IFCs¹⁶⁶ introduced as part of the Budget Speech.

The structure of this rule will be similar that of an existing rule in the tax legislation.¹⁶⁷ However, the new integrity rule will be broader in scope.

165 See subsection 3.2.
166 See subsection 3.9.
167 *Taxation Act*, s. 1029.8.36.166.41.

Thus, for the purposes of this presumption, applicable to the attributes of a partnership, the latter will be deemed, at a particular time, a corporation whose taxation year corresponds to its fiscal period and all the voting shares in the capital stock of which are owned by each member of the partnership, at that time, in a proportion corresponding to the ratio between the member's share of the partnership's income or loss for its fiscal period and the partnership's income or loss for the fiscal period.¹⁶⁸

A trust will be deemed, among other things, at a particular time, a corporation all the voting shares in the capital stock of which are owned by the beneficiary, at that time, in a proportion equal to the proportion that the fair market value of the beneficial interest in the trust of the beneficiary is of the fair market value of the beneficial interests in the trust of all the beneficiaries.¹⁶⁹

The tax legislation will be amended so that this new, general integrity rule is harmonized with those pertaining to preferential tax measures already in the legislation.

In addition, consequential amendments will be made to the *Act respecting the sectoral parameters of certain fiscal measures* so that the integrity rules pertaining to preferential tax measures enacted in the Act that call into play the notions "control of a corporation," "persons not dealing at arm's length," "associated corporation" or "corporation exempt from tax" are also contemplated by this general integrity rule.

■ **Application date**

These amendments will apply to an individual's or a corporation's taxation year ending after the day of the Budget Speech.

□ **Changes to the tax treatment of an activity carried on by a partnership**

For the purposes of several refundable tax credits, activities can be carried on through the intermediary of a partnership rather than by a corporation.¹⁷⁰

However, the interposition of a partnership, while authorized in these situations, is not treated in the same way for the purposes of these refundable tax credits and can result in a variation in the level of tax assistance compared to when an activity is carried on through the intermediary of a corporation.

In this context, the tax legislation will be amended so that, from now on, a partnership will qualify for the purposes of a refundable tax credit only if, were it a corporation, it would qualify.

168 *Ibid.*, subpara. b.

169 *Ibid.*, subpara. c.

170 See, for example, the refundable tax credit for scientific research and experimental development, provided for in section 1029.8 of the *Taxation Act*, the refundable tax credit for technological adaptation services, provided for in section 1029.8.21.17 of the Act, the refundable tax credit for design provided for in section 1029.8.36.6 of the Act and the refundable tax credit to foster the modernization of the tourist accommodation offering provided for in section 1029.8.36.0.109 of the Act.

In that regard, a partnership will be deemed a corporation whose taxation year corresponds to its fiscal period and all the voting shares in the capital stock of which are owned by each member of the partnership in the proportion that the member's share of the income or loss of the partnership for the partnership's fiscal period is of the partnership's income or loss for that fiscal period.¹⁷¹

In addition, the level of tax assistance under a refundable tax credit that allows for an activity to be carried on through the intermediary of a partnership will be calculated by considering the partnership's attributes to be those of a qualified corporation.

For example, as a result of this amendment, the increased rate of the refundable tax credit for design will be established according to the attributes of the partnership rather according to the attributes of a corporation that is a member of the partnership.¹⁷²

■ **Application date**

These amendments will apply to an individual's or a corporation's taxation year beginning after the day of the Budget Speech that includes the end of a fiscal period of a partnership to which these amendments apply.

4.2 Change to the calculation of a taxable benefit of an employee for the purposes of a refundable tax credit

Several refundable tax credits for businesses apply to labour expenditures and, more specifically, to wages paid to employees who carry on activities that the government intends to encourage.

In that regard, the legislative provisions governing these refundable tax credits refer to the expression "salary or wages," as defined in Chapters I and II of Title II of Book III of Part I of the *Taxation Act*.¹⁷³

In accordance with the tax policy underpinning all tax incentive measures, a taxpayer must generally assume a real financial risk to take advantage of this type of government assistance.

Evaluating the fair market value of an employee's taxable benefit, where the fair market value is to be included in the calculation of the employee's salary or wages, may be determined on the basis of elements that are not restricted to a monetary amount effectively paid by the employer.

In this context, the tax legislation will be amended to specify the elements that must be taken into account in the calculation of a taxable benefit of an employee for the purposes of a refundable tax credit.

171 *Taxation Act*, s. 1.8.

172 *Taxation Act*, s. 1029.8.36.10.

173 CQLR, chapter I-3, ss. 32 to 58.3.

More specifically, a general amendment will be made to the tax legislation so that the value of a taxable benefit may be factored into the calculation of an employee's salary or wages for the purposes of a refundable tax credit only where the employer paid the value of the benefit by means of a monetary amount.

For greater clarity, this amendment will not apply to refundable tax credits in respect of which a restriction on employee benefits already exists.¹⁷⁴

This amendment will apply to a taxpayer's taxation year beginning after the day of the Budget Speech.¹⁷⁵

4.3 Changes to the rules pertaining to the 12-month time period for applying for a refundable tax credit

Under a general rule applicable to all refundable tax credits for businesses, applications for the tax must be submitted to Revenu Québec no later than 12 months after the filing-due date for a taxation year¹⁷⁶ to which a refundable tax credit applies.¹⁷⁷

However, eligibility for certain refundable tax credits hinges on first receiving a document issued by a sectoral body, other than Revenu Québec, in accordance with the provisions of the *Act respecting the sectoral parameters of certain fiscal measure* (hereafter called the "sectoral act").¹⁷⁸

Thus, to take into account the fact that it sometimes takes longer to examine applications for such documents, two exceptions provide taxpayers with the possibility of applying for a refundable tax credit after the aforementioned 12-month time limit, because of the "late" issuance of a certificate or other document needed to apply for a refundable tax credit.¹⁷⁹

The first exception provides for a standard "sectoral" time limit of nine months after the filing-due date for a taxpayer's taxation year.

Thus, where a taxpayer applies for a sectoral document by the nine-month time limit and the sectoral body concerned issues the document "late," that is, after the 12-month time limit, the taxpayer may nevertheless apply to Revenu Québec for a refundable tax credit, without there being, however, any other time limit for applying for the refundable tax credit.¹⁸⁰

174 In the *Taxation Act*, see, for example, the refundable tax credit for on-the-job training periods (s. 1029.8.33.3, third para., subpara. b) and the refundable tax credit for resource regions (art. 1029.8.36.72.82.1, first para., definition of "salary or wages").

175 For greater clarity, this amendment will apply to a partnership's fiscal period beginning after the day of the Budget Speech, as the case may be.

176 *Taxation Act* (CQLR, chapter I-3), s. 1, definition of "filing-due date."

177 *Ibid.*, art. 1029.6.0.1.2, first para.

178 CQLR, chapter P-5.1.

179 These exceptions were announced as part of Budget 2006-2007 (MINISTÈRE DES FINANCES DU QUÉBEC – *Additional Information on the Budgetary Measures*, March 23, 2006, Section 1, pp. 164-166).

180 *Taxation Act*, art. 1029.6.0.1.2, second para. More specifically, the sectoral document must be issued after the 15th day preceding the expiry of the 12-month time limit.

Under the second exception, an additional “sectoral” time limit of three months is granted to taxpayers. Thus, where a taxpayer applies for a sectoral document after the standard nine-month time limit, but before the end of the additional three-month period, for a total “sectoral” time limit of 12 months, and the sectoral body concerned issues the document after the 12-month time limit set forth in the tax legislation, the taxpayer must nevertheless submit an application for the refundable tax credit to Revenu Québec.

In the latter case, it is up to Revenu Québec, by virtue of the discretion conferred on it, to accept the application for a refundable tax credit after the 12-month period and assess the taxpayer’s reasons for filing the application for a document with the sectoral body concerned within the additional “sectoral” time limit of three months, mentioned above, that is, after the expiry of the standard “sectoral” time limit of nine months.¹⁸¹

❑ Introduction of a time limit for applying for a document necessary for the purposes of a refundable tax credit

The sectoral act contains provisions pertaining to applications for the issue of a certificate or other document necessary for the purposes of a fiscal measure.¹⁸²

In that regard, it is up to the sectoral body concerned to determine whether an application for a document is admissible and contains all the required information.¹⁸³

However, these provisions in the sectoral act had not yet been enacted when the aforementioned nine-month “sectoral” time limit was announced,¹⁸⁴ since the sectoral act was not passed until March 2012.¹⁸⁵

Thus, to better distinguish between the respective roles of Revenu Québec and the bodies responsible for issuing certificates or other documents necessary for the purposes of a refundable tax credit, the sectoral act will be amended to add the “sectoral” time limit of nine months currently provided for in the tax legislation. Consequential amendments will therefore be made to the *Taxation Act* to remove that time limit.¹⁸⁶

181 *Tax Administration Act* (CQLR, chapter A-6.002), s. 36.0.1. More specifically, the sectoral document must be issued after the 15th day preceding the expiry of the 12-month time limit. See also Revenu Québec interpretation bulletin LAF. 36-1/R1, *Extension of Time Limits*, of December 29, 2011.

182 *Act respecting the sectoral parameters of certain fiscal measures*, ss. 8-10.

183 *Ibid.*, s. 10.

184 See note 179.

185 S.Q. 2012, chapter 1.

186 See note 180.

More specifically, the sectoral act will be amended to require a person seeking to claim a refundable tax credit for a taxation year who is required to obtain a certificate or other document necessary for the purposes of the refundable tax credit¹⁸⁷ to apply for the certificate or other document no later than the end of the nine-month period beginning on the day following the filing-due date for the taxation year.¹⁸⁸

In addition, where a person seeks to claim a refundable tax credit as a member of a partnership, it is up to the partnership to obtain a certificate or other document necessary for the purposes of the refundable tax credit.¹⁸⁹

Thus, the sectoral act will be modified to make the partnership responsible for applying for a certificate or other document no later than the end of the nine-month period beginning on the day following the end of the partnership's fiscal period to which the refundable tax credit applies.

Moreover, the sectoral act will be amended to incorporate discretion similar to that currently conferred on Revenu Québec with respect to applications for sectoral documents made within the aforementioned additional "sectoral" time limit of three months.¹⁹⁰

More specifically, the sectoral act will be amended so that each sectoral body responsible for issuing a certificate or other document necessary for the purposes of a refundable tax credit may nevertheless issue the certificate or document when an application is submitted to the body within the additional three-month time limit following the expiry of the new, standard time limit of nine months to be incorporated into the sectoral act, where the body believes there is a valid reason for the "late" filing of the application for a document for the purposes of a refundable tax credit.

□ Consequential amendments to the *Taxation Act*

Consequential amendments will be made to the tax legislation due to the aforementioned amendments to be made to the sectoral act.

More specifically, the *Taxation Act* will be amended so that a taxpayer seeking to claim a refundable tax credit for the purposes of which a sectoral body must first issue a certificate or other document may not claim the tax credit for a taxation year after the expiry of the later of the following time limits:

- the time limit ending 12 months after the filing-due date for the taxation year;
- the time limit ending three months after the date of issue of the certificate or other document necessary for the purposes of the tax credit for the taxation year.

187 *Act respecting the sectoral parameters of certain fiscal measures*, s. 8.

188 The necessary adaptations will be made to the sectoral act to incorporate the *Taxation Act* definition of "filing-due date" into the sectoral act.

189 See note 187.

190 See note 181.

In addition, the *Tax Administration Act* will be amended to withdraw Revenu Québec's discretion regarding the "late" filing of an application for a refundable tax credit in respect of which a certificate or other document must first be issued by a sectoral body.

❑ Application date

These amendments will apply to a taxpayer's taxation year beginning after the day of the Budget Speech.

However, as regards, more specifically, the amendments to the sectoral act relating to a partnership's application for a certificate or other document necessary for the purposes of a refundable tax credit, these will apply to a partnership's taxation year beginning after the day of the Budget Speech.

4.4 Changes to the compulsory disclosure mechanism for certain transactions

On October 15, 2009, a number of measures to combat aggressive tax planning (ATP) schemes more effectively were announced,¹⁹¹ including a compulsory disclosure mechanism for certain transactions.¹⁹²

Briefly, two types of transactions are covered by this compulsory disclosure mechanism, namely, a transaction regarding which the advisor requires confidentiality on the part of the client (hereafter called a "confidential transaction")¹⁹³ and a transaction for which the advisor's remuneration is conditional on the occurrence of certain events (hereafter called a "transaction involving conditional remuneration").¹⁹⁴

More specifically, in relation to a transaction involving conditional remuneration, the compulsory disclosure mechanism stipulates that where a taxpayer, or partnership of which the taxpayer is a member, carries out a transaction resulting, directly or indirectly, for a taxation year or for a fiscal period, as the case may be, either in a tax benefit of \$25 000 or more for the taxpayer, or in an impact on the income of the taxpayer or the partnership, as the case may be, of \$100 000 or more, the transaction must be disclosed to Revenu Québec for the taxation year or fiscal period, where the advisor's remuneration in respect of the transaction takes on any of the following forms:

- all or part of the remuneration is conditional on obtaining a tax benefit or is determined, in whole or in part, on the basis of the tax benefit;
- all or part of the remuneration may be refunded to the taxpayer, in any manner whatever, if the tax benefit sought from the transaction fails to materialize;

191 MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2009-5*, October 15, 2009.

192 *Taxation Act* (RLRQ, chapitre I-3), ss. 1079.8.1 to 1079.8.15.

193 *Ibid.*, s. 1079.8.1, first para., definition of "confidential transaction."

194 *Ibid.*, s. 1079.8.1, first para., definition of "transaction involving confidential remuneration."

- all or part of the remuneration is earned by the advisor only after the expiry of the prescription period that applies to the taxation year or taxation years in which the transaction takes place.

However, any request related to the payment to a taxpayer of an amount the taxpayer is deemed to have paid to the Minister of Revenue as an instalment on income tax payable for a taxation year, that is, any application for a refundable tax credit, does not constitute a transaction involving conditional remuneration.¹⁹⁵

The purpose of the compulsory disclosure mechanism is to alter the risk-return tradeoff of ATPs and the business model of certain tax intermediaries.

Moreover, the goal of this fact-based mechanism is to rapidly pick up on behaviors considered to carry a higher risk of non-compliance with the purpose and spirit of the tax legislation, as in the case of confidential transactions and transactions involving conditional remuneration.

In that regard, new provisions for scientific research and experimental development (R&D) were added to the tax legislation after the compulsory disclosure mechanism was introduced.

Accordingly, an application for a refundable R&D tax credit must now specify the terms for billing an advisor, where the fees to be paid to the latter are conditional on obtaining the tax credit.¹⁹⁶

That amendment was made to the tax legislation for the same reason that underpins the obligation to disclose certain transactions identified as being likely to be ATPs, namely, that a higher risk of non-compliance with the purpose and spirit of the tax legislation exists in a transaction involving confidential remuneration.

Another situation could also entail a higher risk of non-compliance with the purpose and spirit of the tax legislation—a transaction involving contractual coverage.

In that regard, contractual coverage means insurance, except professional liability-type insurance, or any kind of coverage, including an indemnity, compensation or a guarantee that would serve to:

- protect the taxpayer from any failure of the transaction to produce a tax benefit;
- pay or refund any amount (expense, cost, tax, interest, penalty or similar amount) that may be incurred by the taxpayer in a dispute with a tax authority in Canada or elsewhere relative to a tax benefit that may stem from the transaction; or
- help or represent a taxpayer, protect the taxpayer's rights or otherwise assist the taxpayer in a dispute with a tax authority in Canada or elsewhere relative to a tax benefit that may stem from the transaction.

195 *Ibid.*, art. 1079.8.1, second para., subpara. a.

196 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin* 2013-7, July 11, 2013, p. 4.

In this context, the tax legislation will be amended to broaden the scope of the existing obligation to disclose.

First, the tax legislation will be amended to remove the exception stipulating that an application pertaining to the payment of an amount to a taxpayer that the taxpayer is deemed to have paid to the Minister of Revenue as an instalment on income tax payable for a taxation year, that is, any application for a refundable tax credit, does not constitute conditional remuneration for the purposes of disclosure of certain transactions.¹⁹⁷

For greater clarity, any transaction involving conditional remuneration that is aimed at obtaining a refundable tax credit and that will directly or indirectly result in a tax benefit of \$25 000 or more for a taxpayer seeking to obtain the tax credit must, from now on, be disclosed to Revenu Québec, according to the compulsory disclosure mechanism.

Second, the tax legislation will be amended to stipulate that a transaction involving contractual coverage, as defined above, is subject to the compulsory disclosure mechanism, where a taxpayer, or partnership of which the taxpayer is a member, carries out a transaction resulting, directly or indirectly, for a taxation year or for a fiscal period, as the case may be, either in a tax benefit of \$25 000 or more for the taxpayer, or in an impact on the income of the taxpayer or the partnership, as the case may be, of \$100 000 or more.

These amendments to the compulsory disclosure mechanism will apply to transactions carried out as of the day of the Budget Speech. However, they will not apply to a transaction carried out as part of a series of transactions, disregarding section 1.5 of the *Taxation Act*, that began before the day of the Budget Speech and will be completed before July 1, 2015.

4.5 Changes to refundable tax credit aimed at encouraging the creation of new financial services corporations

The March 20, 2012 Budget Speech implemented two refundable tax credits to encourage the creation of new financial services corporations.¹⁹⁸

On the one hand, a qualified corporation may claim a refundable tax credit for the hiring of employees. The tax credit represents 24% of the eligible salary that the corporation pays to its eligible employees during a particular taxation year included in the period of five years of eligibility for the tax credit. However, the tax credit is limited to \$24 000 per eligible employee per year.

On the other hand, a qualified corporation may claim a refundable tax credit that represents 32% of the eligible expenses that it pays during a taxation year included in the five-year period. However, the tax credit is limited to \$120 000 per year.¹⁹⁹

197 See note 195.

198 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, pp. 42-50.

199 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, p. 41. The rates were previously 30% and 40% and the annual ceilings were \$30 000 and \$150 000, respectively.

The two tax credits are jointly referred to as the “refundable tax credit for new financial services corporations.”

A corporation must submit an application with all the required information to the Minister of Finance, before the end of its second fiscal period, but on or before December 31, 2017, to obtain a qualification certificate for the purposes of this refundable tax credit.²⁰⁰

The *Act respecting the sectoral parameters of certain fiscal measures* (hereafter called the “sectoral act”) will be amended to faithfully reflect the objective of the tax policy underpinning the tax credit.

❑ Continuation of activities previously carried on by another person or partnership

When the refundable tax credit for new financial services corporations was implemented, the tax measure was said to encourage the creation of new corporations in the financial services sector. Accordingly, the objective of the fiscal policy is that new corporations create new activities not previously carried on by anyone.

In this context, an amendment will be made to the sectoral act to specify that, to obtain a qualification certificate for the purposes of the refundable tax credit for new financial services corporations,²⁰¹ a corporation must demonstrate that none of the activities it carries on for the purposes of the tax credit is the continuation of all or part of an activity previously carried on another person or partnership.

In addition, to ensure the integrity of this rule relative to the continuation of an activity previously carried on by another person or partnership, an additional amendment will be made to the sectoral act with respect to the issuance of an annual certificate for the purposes of the tax credit.

Thus, to obtain an annual certificate,²⁰² a corporation holding a valid qualification certificate for the purposes of the tax credit must demonstrate to the Minister of Finance that all of the activities it carried on during all or part of the taxation year, as the case may be, in respect of which an application for the certificate was submitted, constitute activities that were not previously carried on by another person or partnership.

The Minister of Finance will nevertheless be able to issue such an annual certificate, where the corporation continues for all or part of the year, as the case may be, the carrying on of activities previously carried on by another person or partnership, where all or substantially all of the corporation’s activities for the year or part of the year, as the case may be, stem from activities other than those the carrying on of which is continued by the corporation.

200 *Act respecting the sectoral parameters of certain fiscal measures* (CQLR, chapter P-5.1), Schedule E, s. 6.2, fourth para.

201 *Act respecting the sectoral parameters of certain fiscal measures*), Schedule E, ss. 6.2 to 6.5.

202 *Ibid.*, Schedule E, s. 6.6.

Moreover, a corporation may continue for all or part of a year, as the case may be, the carrying on of all or part of an activity previously carried on by another corporation, only where, at the time the activities are transferred, the other corporation holds a valid qualification certificate for the purposes of the refundable tax credit for new financial services corporations.

In that case, the period of validity of the qualified corporation's qualification certificate will be changed to correspond to the shortest amount of time remaining in the five-year period applicable to its qualification certificate or that of the other corporation.

Application date

These amendments will be declaratory.

5. OTHER MEASURES

5.1 Easing of the tax provisions applicable to the transfer of family businesses

Under the *Taxation Act*,²⁰³ an individual other than a trust may obtain, on the disposition of qualified small business corporation shares, a family farm corporation or a family fishing corporation, a capital gains exemption of up to \$813 600 (\$1 million for the agriculture and fishing sectors).

However, as soon as the capital gains exemption was introduced 30 years ago, it was pointed out that it was becoming generally more advantageous, from a purely fiscal standpoint, for the owner to sell the business to a third party, or even to foreign interests, rather than to a family member.

This is explained by the introduction of tax rules stipulating that the gain realized on the disposition of shares to a corporation with which an individual is not dealing at arm's length will generally be treated as a deemed dividend.

These provisions are integrity rules introduced at the same time as the capital gains exemption, that are intended to prevent surplus stripping. Without these rules, the introduction of the capital gains exemption would have stripped the surplus of many corporations through tax-free distribution to shareholders of all or part of existing and future surpluses.

Surplus stripping consists in the extraction of surplus from a corporation without paying the tax normally applicable. In the case involved here, the surplus is extracted from the corporation without the individual paying tax.

While there is no provision in the *Taxation Act* preventing a taxpayer from claiming the capital gains exemption because the taxpayer's qualified shares were sold to a family member, a corporation is generally purchased, for tax and financing reasons, through another corporation.

Accordingly, the provisions of the *Taxation Act*, which are harmonized with the corresponding provisions of the federal legislation, do not allow an individual, for the aforementioned reasons, to claim the capital gains exemption on the disposition of qualified shares to a corporation with which the individual is not dealing at arm's length.

More specifically, an individual cannot take the proceeds of sale and claim the capital gains exemption in such a situation, since the gain on the disposition of the shares is generally treated as a deemed dividend, not as a capital gain.

Thus, as a result of this situation, where the buyer is not dealing at arm's length with the seller and wants to acquire qualified shares through a corporation, the seller is generally required to pay tax on a deemed dividend instead of realizing a capital gain, and therefore cannot claim the capital gains exemption.

203 CQLR, chapter I-3.

This explains why it is generally more advantageous, from a purely fiscal standpoint, for the owner to sell the business to a third party, or even to foreign interests, rather than to a family member.

This integrity rule will be amended to narrow its scope.

□ Technical amendments

As indicated above, the provisions of the *Taxation Act* are harmonized with the corresponding provisions of the federal legislation.

In fact, it goes beyond mere harmonization in the case of certain concepts that exist in the *Taxation Act* solely in the form of references to those in the federal statute. Paid-up capital of a share is a case in point.

This unavoidable reality makes amendments that could be implemented autonomously, that is, without equivalent amendments by the federal tax authorities, more complex and even limits their scope, in particular for reasons of integrity.

■ Non-application of the integrity rule respecting a consideration other than a share

When shares are sold to a corporation (hereafter called the “acquirer”) with which the seller is not dealing at arm’s length, the seller may receive, as consideration for the shares transferred, shares of the acquirer, a consideration other than a share (COS), or a combination of the two. A COS may be, for example, a cash payment or a promissory note.

Briefly, when shares are issued to the seller by the acquirer, any necessary adjustments to the tax characteristics of the shares issued (adjusted cost base and paid-up capital) are made under the integrity rule.

When a COS is used to pay the seller, the integrity rule can cause the gain on the disposition of the shares to be treated as a deemed dividend instead of a capital gain.

The integrity rule will be eased with respect to sellers who receive a COS as full or partial payment.

Despite what was said above about the current harmonization of the integrity rule, it is technically possible, in the case of a COS, to provide for Québec tax treatment separate from that under the federal rules.

Accordingly, amendments will be made to the *Taxation Act* to provide that the integrity rule does not apply, where the seller claims the capital gains exemption in respect of a capital gain realized on the disposition of qualified shares in the primary and manufacturing sectors to a corporation with which the seller is not dealing at arm’s length.

The shares must, however, be disposed of in conjunction with the transfer of a qualified family business.

The deemed dividend calculated at the Québec level may differ from that calculated at the federal level, for example when the Québec adjusted cost base of the shares transferred differs from that under the federal system.

In this context, and to limit opportunities to take advantage of such a difference, the possibility of the non-application of the integrity rule will be determined on the basis of the deemed dividend calculated at the federal level or the deemed dividend that would result from the Québec rules were these amendments not made, whichever is lower.

In other words, on an exceptional basis, the seller will be able to claim the capital gains exemption respecting the gain on the transaction, but only where the gain is treated as a deemed dividend under the federal integrity rules. Moreover, this exception will apply solely if the seller actually claims the capital gains exemption in respect of the capital gain resulting specifically from the non-application of the integrity rule further to these amendments.

For greater clarity, the portion of the integrity rule that adjusts, as necessary, the tax characteristics of the shares issued (adjusted cost base and paid-up capital), where shares are issued to the seller by the acquirer, will remain unchanged.

Qualified share of the primary and manufacturing sectors

For the purposes of this tax measure, “qualified share of the primary and manufacturing sectors” will mean:

- a share of the capital stock of a family farm corporation;²⁰⁴
- a share of the capital stock of a family fishing corporation;²⁰⁵ or
- a qualified small business corporation share²⁰⁶ of a corporation in the primary or manufacturing sector.

Corporation in the primary or manufacturing sector

For the purposes of this tax measure, “corporation in the primary or manufacturing sector” will mean a corporation of which, at the time of the disposition of qualified shares, over 50% of the fair market value of the assets is attributable to assets used in the primary and manufacturing sectors.

204 *Taxation Act*, s. 726.6.1, definition of “share of the capital stock of a family farm corporation.”

205 *Ibid.*, s. 726.6.1, definition of “share of the capital stock of a family fishing corporation”.

206 *Ibid.*, s. 726.6.1, definition of “qualified small business corporation share.”

Assets other than investments will be deemed to have been used at the time of the disposition of qualified shares in the primary and manufacturing sectors, in the case of any corporation whose proportion of activities in the primary sector or manufacturing and processing sector,²⁰⁷ for the purposes of the additional deduction for SMBs in the primary and manufacturing sectors, is 50% or more for the corporation's two taxation years ended immediately before the disposition of the shares.²⁰⁸

Investments will be deemed to have been used in the primary and manufacturing sectors, where they are investments in any form whatsoever made directly in a corporation that is a corporation in the primary or manufacturing sector, as this term is meant here.

For greater clarity, while the agriculture and fishing sectors are in the primary sector, they are not covered by the conditions specifically applicable to a qualified share of a corporation operating a small business in the primary or manufacturing sector, since the shares will be qualified as shares in the capital stock of a family farming corporation or shares in the capital stock of a family fishing corporation.

☐ Transfer of a qualified family business

As indicated previously, these amendments will apply solely to a disposition of qualified shares in the primary and manufacturing sectors carried out in conjunction with the transfer of a qualified family business.

For reasons of integrity, it is not advisable for the amendments to apply to all types of dispositions of shares to a corporation with which the individual who is the seller is not dealing at arm's length, the most obvious case being the disposition of shares to a corporation of which the seller is the sole shareholder.

Conversely, there is no doubt that the amendments should apply where the seller (or the seller's spouse) is no longer involved in the corporation of which shares were sold (or in another entity having certain ties with the corporation), regardless of whether the involvement is as a shareholder (or any other form of participation), an employee, a consultant or an administrator.

However, limiting the application of these easements to such cases would be contrary to good practice in transferring a family business in a non-arm's length situation with the buyer.

Thus, qualification criteria will be established to formulate the best possible definition of the type of share disposition to which these amendments will apply. These criteria will take into consideration several elements, including the reduction of the seller's involvement, in any form whatsoever, in the corporation whose shares are disposed of.

207 Where this test is applied to a corporation's taxation year having begun before January 1, 2017, the proportion taken into account will be the proportion of activities attributable to manufacturing and processing activities.

208 Such a taxation year that has fewer than 183 days will not be considered. The first previous taxation year with over 182 days must be considered instead.

A seller wishing to take advantage of this exception will be required to obtain, from the responsible body, a qualification certificate establishing that the share disposition was carried out in conjunction with a transfer of a qualified family business prior to the disposition of the said shares.

The conditions for issuing such a certificate will therefore be contained in the *Act respecting the sectoral parameters of certain fiscal measures*.²⁰⁹

The Ministère des Finances will announce, within one year, the qualification criteria and the name of the body responsible for issuing the qualification certificate establishing that a share disposition was carried out in conjunction with the transfer of a qualified family business.

❑ **Application date**

These amendments will apply to share dispositions after December 31, 2016.

5.2 Increase in the eligible amount of donations of food products by farming businesses

Farming corporations that donate goods they produce to registered charities may deduct, in the calculation of their taxable income, an amount generally equivalent to the fair market value of the goods donated. However, because the fair market value of these goods is also factored into the calculation of their business income, the net deduction to which they are entitled corresponds solely to the cost of the goods donated. It follows that their after-tax situation is the same, regardless of whether they sell their goods in inventory, donate them or otherwise dispose of them.

In the case of individuals who carry on a farming business, the fair market value of the goods donated is used instead to calculate the non-refundable tax credit for charitable gifts.²¹⁰

Donations of agricultural products enable organizations that respond to requests for emergency food assistance to offer needy families food products essential to a healthy diet.

For over 25 years, the Food Banks of Quebec network has supported and represented 18 Moisson members (food banks) across Quebec in supplying more than 1 000 food assistance organizations. Each month, with the support of volunteers, the organizations served by Moisson members process more than 1.6 million requests for emergency food assistance. In 2014, despite the support of faithful partners, the community and thousands of volunteers, over 50% of the organizations served by Moisson members did not have sufficient food products to meet demand.

209 CQLR, chapter P-5.1.

210 For the first \$200 in gifts included in the calculation of this tax credit, the applicable rate is 20%, while the rate applicable to the excess over \$200 is 24%.

To encourage more agricultural producers to donate food products, the eligible amount of a donation of eligible agricultural products made after the date of the Budget Speech by a recognized agricultural producer to a registered charity that is either the Food Banks of Quebec or a Moisson member²¹¹ will be raised by 50% for the purposes of the calculation of the deduction for gifts or the non-refundable tax credit for gifts, as the case may be.

For the purposes of this measure, a recognized agricultural producer will mean an individual or a corporation carrying on a business registered as an agricultural operation with the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation, in accordance with the regulation enacted under section 36.15 of the *Act respecting the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation*,²¹² or that is a member of a partnership operating such a business at the end of the partnership's fiscal period.

Moreover, the following will be considered eligible agricultural products: meat and meat by-products, eggs and dairy products, fish, fruits, vegetables, grains, pulses, herbs, honey, maple syrup, mushrooms, nuts, or anything else that is grown, raised or harvested by a registered agricultural operation, provided the products may be legally sold, distributed, or offered for sale at a place other than where they were produced, as food products or beverages for human consumption.

However, a product that has been processed will not be considered an eligible agricultural product unless it has been processed no more than necessary for the product to be legally sold, distributed, or offered for sale at a place other than where it was produced, as a food product or beverage for human consumption.

5.3 Increase in the threshold for mandatory participation in workforce skills development

Under the *Act to promote workforce skills development and recognition*,²¹³ an employer whose total payroll for a calendar year exceeds \$1 million is required to participate for that year in workforce skills development by allotting an amount representing at least 1% of the employer's total payroll to eligible training expenditures.

Employers subject to such an obligation must inform the Commission des partenaires du marché du travail annually of the means they used to carry on their eligible training activities. They must also record and report to Revenu Québec the eligible training expenditures incurred.

211 Currently, the Moisson members that have registered charity status are the Centre de bénévolat et Moisson Laval, Moisson Beauce inc., Moisson Estrie, Moisson Kamouraska, Moisson Lanaudière, Moisson Laurentides, Moisson Mauricie / Centre-du-Québec, Moisson Montréal inc., Moisson Outaouais, Moisson Québec inc., Moisson Rimouski-Neigette inc., Moisson Rive-Sud, Moisson Saguenay–Lac-St-Jean inc., Moisson Sud-Ouest, Moisson Vallée Matapédia, la Ressourcerie Bernard-Hamel (Centre Bernard-Hamel/Centre familial) et S.O.S. Dépannage Granby et région inc.

212 CQLR, chapter M-14.

213 CQLR, chapter D-8.3.

Where their total eligible training expenditures applicable to a particular year is less than 1% of their total payroll, the employers are also required to pay into the Workforce Skills Development and Recognition Fund for the year a contribution equal to the difference between those amounts.

Accordingly, to ease the administrative burden of small and medium-sized businesses, the *Regulation respecting the determination of total payroll*²¹⁴ will be amended to provide that, as of 2015, only employers whose total payroll for a year exceeds \$2 million will be required to participate in the development of workforce skills for that year.

5.4 Additional reduction of the specific tax on gasoline in border regions

Under the fuel tax system, the general rate of the specific tax on gasoline—19.2 cents per litre—is reduced in certain regions of Québec bordering another Canadian province or an American state. The reduction, which is determined on the basis of a maximum distance of 20 kilometres from the border of the province or state, is 1 to 4 cents per litre in regions bordering New Brunswick and Ontario, and 2 to 8 cents per litre in regions bordering the United States.

The reduction is aimed at supporting the competitive position of Québec gasoline retailers whose establishments are located in the so-called border regions,²¹⁵ relative to their competitors in adjacent jurisdictions where the price of gasoline is lower essentially because gasoline is taxed less.

The taxation gap between Québec and adjacent jurisdictions having gradually widened in recent years, the current amounts applicable for the purposes of the reduction appear to no longer be enough to support the competitive position of Québec gasoline retailers in border regions.

In this context, an additional reduction of the specific tax on gasoline will be granted in these regions as of April 1, 2015.

214 CQLR, chapter D-8.3, r. 4.

215 More specifically, border regions are Québec regions within a range of less than 20 kilometres from a point of contact with a Canadian province or an American state in which a gasoline retailer's establishment is located less than 20 kilometres from the point of contact.

The following table presents the current amounts of the reduction of the specific tax on gasoline in border regions, along with the new amounts of the reduction that will apply as of that date.

TABLE A.17

Reduction of the specific tax on gasoline in border regions
(cents per litre)

Distance from the border	New Brunswick and Ontario		United States	
	Current	As of April 1, 2015	Current	As of April 1, 2015
Less than 5 km	4	8	8	12
5 km to less than 10 km	3	6	6	9
10 km to less than 15 km	2	4	4	6
15 km to less than 20 km	1	2	2	3

As a corollary of the additional reduction granted in the border region with Ontario, the amount of the reduction of the specific tax on gasoline granted in the designated region²¹⁶ will also be raised, from 1 cent per litre to 2 cents per litre, as of April 1, 2015.

☐ Taking of inventory for refund purposes

Persons who, in the border regions and the designated region, sell gasoline on which the specific tax has been collected in advance may claim a refund of the amount corresponding to the difference between the specific tax applicable according to the reduced rate in effect before midnight on March 31, 2015 and the tax applicable according to the new reduced rate. To be entitled to the refund, they must take an inventory of all gasoline they have in stock at midnight on March 31, 2015.

Persons who take an inventory must use the form provided by Revenu Québec for that purpose and return it so that it is received before July 1, 2015. For greater clarity, gasoline acquired by a person before midnight on March 31, 2015 that has not yet been delivered to the person will be part of the person's stock.

²¹⁶ The designated region is the region of Québec adjoining Ontario, without being a border region, located in the southern part of the electoral divisions of Chapleau, Papineau and Argenteuil. It is delimited to the west by the border region located in the electoral division of Chapleau, to the north up to a radius of 20 kilometres from route 148, to the east by the border region located in the electoral division of Argenteuil, and to the south by rivière des Outaouais.

Section B

REPORT ON THE APPLICATION OF THE LEGISLATION RESPECTING A BALANCED BUDGET AND THE GENERATIONS FUND

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1. THE *BALANCED BUDGET ACT*

Under the *Balanced Budget Act*, the Minister of Finance must report to the National Assembly, in the budget speech, on the achievement of the objectives of the Act and any variance recorded.

1.1 Current stipulations and requirements of the Act

The purpose of the *Balanced Budget Act* is to oblige the government to maintain a balanced budget and, to that end, to table balanced budget estimates. The Act sets out the applicable rules in the case of an overrun.

The *Balanced Budget Act*

The *Balanced Budget Act* (CQLR, chapter E-12.00001) was passed unanimously by the National Assembly of Québec on December 19, 1996. The Act stipulates that the government must table balanced budget estimates and sets out the applicable rules in the case of an overrun.

In 2009, the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (S.Q. 2009, chapter 38) substantially amended the *Balanced Budget Act* to, among other things, introduce specific provisions to allow the government to weather the recession and authorize deficits that would have to be reduced gradually in order to return to a balanced budget in 2013-2014.

In addition, the *Balanced Budget Act* was amended in 2013 to exclude, from the calculation of the budgetary balance for 2012-2013, the result of \$1.9 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant.

Under the Act, if an overrun of less than \$1 billion is recorded for a fiscal year, the government must achieve an equivalent surplus in the next fiscal year.

The Act stipulates that the government may incur overruns for a period of more than one year, where such overruns total at least \$1 billion as a result of circumstances defined in the Act, namely, a disaster having a major impact on revenue or expenditure, a significant deterioration of economic conditions or a change in federal programs of transfer payments to the provinces that would substantially reduce transfer payments to the government. The government must then apply an offsetting financial plan ensuring that the overruns will be compensated for within a five-year period.

If there is an overrun of at least \$1 billion, the Minister of Finance must report to the National Assembly on the circumstances justifying that the government incur such overruns. In addition, the Minister must present a financial plan allowing those overruns to be offset within the five-year period and apply offsetting measures covering at least \$1 billion as of the fiscal year in which such an overrun is anticipated, or the following year in the case where an overrun is recorded. He must offset at least 75% of those overruns within the first four fiscal years of that period.

In addition, the Act stipulates henceforth that entries posted to the net debt must be taken into account in calculating the budgetary balance, except where such entries result from changes made to the accounting policies of the government or any of its enterprises so as to bring them into compliance with a new standard of the organization Chartered Professional Accountants Canada (CPA Canada).

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the objectives of the Act, their achievement and any variance recorded, and on the operations of the stabilization reserve.

1.2 The budgetary balance within the meaning of the *Balanced Budget Act*

Under the *Balanced Budget Act*, the objectives of the Act are achieved if the budgetary balance, calculated in accordance with the Act, is zero or positive. Table B.1 shows the components for establishing the budgetary balance within the meaning of the Act.

Budgetary balance within the meaning of the Act was maintained from 2006-2007 to 2008-2009.

In 2009-2010 and 2010-2011, the budgetary balance within the meaning of the *Balanced Budget Act* was a deficit of \$3.2 billion, as allowed under the Act.

In 2011-2012, the budgetary balance was a deficit of \$2.6 billion—an improvement of \$1.2 billion compared to the target of \$3.8 billion set pursuant to the *Balanced Budget Act*.

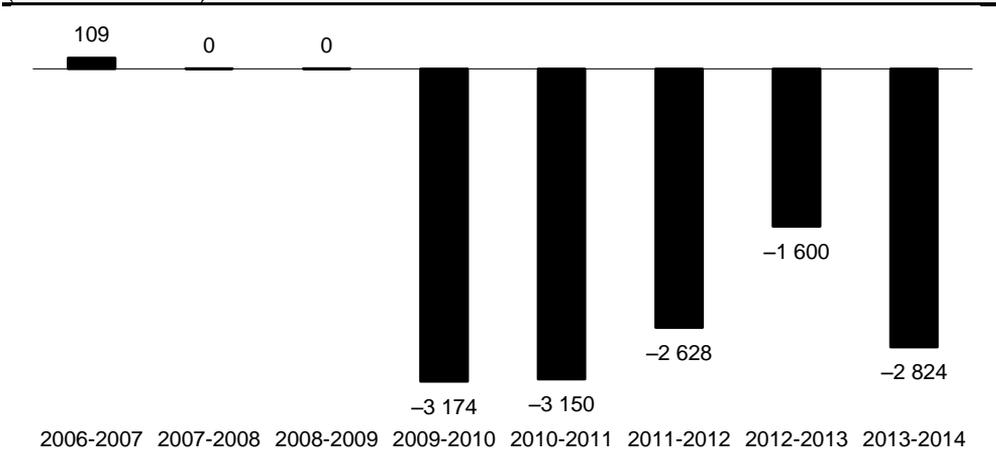
For 2012-2013, the budgetary deficit was \$1.6 billion—a difference of \$100 million in relation to the budgetary deficit objective of \$1.5 billion established in accordance with the *Balanced Budget Act*.

For 2013-2014, the budgetary balance was a deficit of \$2.8 billion. The Act stipulates that the revenue and expenditure established in accordance with the government's accounting policies must be balanced in 2013-2014.

Amendments to the *Balanced Budget Act* are presented in Bill 28¹ to, among other things, allow the deficits recorded for 2012-2013 and 2013-2014 and authorize the government to delay the return to a balanced budget to 2015-2016.

CHART B.1

Budgetary balance from 2006-2007 to 2013-2014⁽¹⁾ (millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

¹ An Act mainly to implement certain provisions of the Budget Speech of 4 June 2014 and return to a balanced budget in 2015-2016.

TABLE B.1

Budgetary balance within the meaning of the *Balanced Budget Act*
(millions of dollars)

Fiscal year	Surplus (deficit) reported in the public accounts ⁽¹⁾	Extraordinary loss relative to Gentilly-2	Generations Fund	Accounting changes	Budgetary balance within the meaning of the Act before reserve	Stabilization reserve		Budgetary balance within the meaning of the Act after reserve ⁽²⁾	
						Annual surplus	Allocations		Uses
2006-2007	1 993	—	-584	—	1 409	1 409	1 300 ⁽³⁾	—	109
2007-2008	1 650	—	-449	—	1 201	1 201	1 201	—	—
2008-2009	-1 258	—	-587	—	-1 845	—	109 ⁽⁴⁾	1 845	—
2009-2010	-2 940	—	-725	58	-3 607	—	—	433	-3 174 ⁽⁵⁾
2010-2011	-2 390	—	-760	—	-3 150	—	—	—	-3 150 ⁽⁵⁾
2011-2012	-1 788	—	-840	—	-2 628	—	—	—	-2 628 ⁽⁶⁾
2012-2013	-2 515	1 876	-961	—	-1 600	—	—	—	-1 600 ⁽⁷⁾
2013-2014	-1 703	—	-1 121	—	-2 824	—	—	—	-2 824 ⁽⁸⁾
2014-2015 ^P	-1 097	—	-1 253	—	-2 350	—	—	—	-2 350 ⁽⁹⁾

P: Preliminary results.

- (1) The amounts correspond to those established in the government's annual consolidated financial statements, without taking into account the adjustments made in subsequent years for the fiscal year concerned.
- (2) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account the allocations to and uses of the stabilization reserve.
- (3) In 2006-2007, only \$1.3 billion was allocated to the stabilization reserve in accordance with the then current legislation. Under the *Balanced Budget Act*, the total surplus for each fiscal year is now allocated to the stabilization reserve.
- (4) In accordance with section 32 of the Act (S.Q. 2009, chapter 38), the sum of \$109 million, corresponding to the difference between the recorded surplus and the anticipated surplus for 2006-2007, was allocated to the stabilization reserve in 2008-2009.
- (5) In accordance with the *Balanced Budget Act*, the obligation to achieve a balanced budget was suspended in 2009-2010 and in 2010-2011.
- (6) For 2011-2012, the budgetary deficit of \$2.6 billion represents an improvement of \$1.2 billion compared to the budgetary deficit target of \$3.8 billion set in the March 2011 budget pursuant to the *Balanced Budget Act*.
- (7) For 2012-2013, the budgetary deficit of \$1.6 billion is \$100 million higher than forecast compared to the target of \$1.5 billion established in the March 2011 budget pursuant to the *Balanced Budget Act*. Amendments to the *Balanced Budget Act* are presented in Bill 28 to allow the budgetary deficit of \$1.6 billion recorded in 2012-2013.
- (8) For 2013-2014, the Act stipulates that the revenue and expenditure established in accordance with the government's accounting policies must be balanced. Amendments to the *Balanced Budget Act* are presented in Bill 28 to allow the budgetary deficit of \$2.8 billion recorded in 2013-2014.
- (9) For 2014-2015, amendments to the *Balanced Budget Act* are presented in Bill 28 to set the budgetary deficit target to be achieved at \$2.35 billion. The legislative amendments also aim to authorize the government to delay the return to a balanced budget to 2015-2016.

1.3 Amendment of the *Balanced Budget Act*

In Budget 2014-2015, the government confirmed that the achievement of a balanced budget, which had been forecast for 2013-2014, was being delayed for two years.

Accordingly, the government announced its intention to propose amendments to the *Balanced Budget Act* in order to, among other things, establish fiscal 2015-2016 for the return to a balanced budget.

On November 26, 2014, the Minister of Finance tabled in the National Assembly Bill 28, *An Act mainly to implement certain provisions of the Budget Speech of 4 June 2014 and return to a balanced budget in 2015-2016*.

The amendments to the *Balanced Budget Act* presented in the Bill aim to:

- establish fiscal 2015-2016 for the return to a balanced budget;
- set the budgetary deficit objective to be achieved for 2014-2015 at \$2 350 million;
- allow the budgetary deficits recorded for fiscal 2013-2014 and 2012-2013, i.e. \$2 824 million and \$1 600 million respectively.

1.4 Status of the stabilization reserve

There have been no transactions in the stabilization reserve.

2. THE ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND

2.1 Maintaining the debt reduction objectives

Budget 2015-2016 confirms the maintenance of the debt reduction objectives² set forth in the *Act to reduce the debt and establish the Generations Fund* for fiscal year 2025-2026:

- the gross debt must not exceed 45% of GDP;
- the debt representing accumulated deficits must not exceed 17% of GDP.

The following contributions, added to those dedicated to the Generations Fund since its creation in 2006, will enable the government to achieve its debt reduction objectives set in the Act.

❑ Specific tax on alcoholic beverages

As provided for in Budget 2014-2015, additional deposits of \$400 million per year drawn from revenues from the specific tax on alcoholic beverages will be made in the Generations Fund as of 2016-2017.

These additional contributions will be over and above the deposits of \$100 million per year currently provided for in the Act. Thus, \$500 million per year drawn from the specific tax on alcoholic beverages will be deposited in the Generations Fund as of 2016-2017.

Accordingly, Bill 28 provides for legislative amendments to the *Act to reduce the debt and establish the Generations Fund* in order to allocate the additional deposits of \$400 million to the Generations Fund starting in 2016-2017.

❑ Heritage electricity

Revenues relating to the indexation of the price of heritage electricity have been deposited in the Generations Fund since 2014-2015.

These deposits will be \$71 million in 2014-2015, \$105 million in 2015-2016, \$175 million in 2016-2017, \$270 million in 2017-2018, \$365 million in 2018-2019 and \$470 million in 2019-2020.

❑ Mining revenues

Deposits in the Generations Fund of all mining revenues collected by the government starting in 2015-2016 will represent \$116 million in 2015-2016, \$171 million in 2016-2017, \$216 million in 2017-2018, \$241 million in 2018-2019 and \$276 million in 2019-2020.

² Section E provides detailed information on the Québec government's debt.

❑ **Other contributions from Hydro-Québec**

An amount of \$215 million per year from Hydro-Québec³ will be deposited in the Generations Fund from 2017-2018 to 2043-2044.

❑ **Allocation of the accumulated surplus of the Commission des normes du travail**

In addition, as part of the merger of the Commission de la santé et de la sécurité du travail, the Commission des normes du travail and the Commission de l'équité salariale as of January 1, 2016, the government has decided to deposit in the Generations Fund the accumulated surplus of the Commission des normes du travail, which is expected to represent \$89 million in 2015-2016.

This allocation to the Generations Fund will enable the government's gross debt to be reduced.

³ Further to the closure of the Gentilly-2 nuclear power plant, the government decided to deposit in the Generations Fund an amount of \$215 million per year, from 2017-2018 to 2043-2044, corresponding to the estimate made in 2012 of Hydro-Québec's annual savings related to the non-refurbishment of the plant.

Requirements of the Act

The *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter R-2.2.0.1) was passed on June 15, 2006. This statute established the Generations Fund, a fund dedicated exclusively to repaying the gross debt.

In 2010, the Act was amended to revise the concepts of debt used and the debt reduction objectives that must be achieved by 2025-2026.

The Act stipulates that, for fiscal year 2025-2026, the gross debt may not exceed 45% of GDP and the debt representing accumulated deficits may not exceed 17% of GDP.

Under the current provisions of the Act, which do not take into account the legislative amendments provided for in Budget 2014-2015 and Budget 2015-2016, the Generations Fund is constituted of the following amounts from revenue sources dedicated to debt repayment:

- water-power royalties paid by Hydro-Québec and private producers of hydro-electricity;
- part of Hydro-Québec's earnings on the sale of electricity outside Québec as a result of its increased generating capacity;¹
- revenues from the indexation of the price of heritage electricity since 2014;
- fees or charges for water withdrawal;¹
- as of 2015-2016, the total of fees, duties, rentals and mining royalties provided for in the *Mining Tax Act* and the *Mining Act*. This amount will be established once the duties allocated to the mining heritage and mining activity management components of the Natural Resources Fund have been subtracted. For 2014-2015, the amount of mining revenues allocated to the Generations Fund corresponds to one quarter of the amount by which the sums collected by the government exceed \$200 million in accordance with the above statutes;
- since 2014-2015, \$100 million a year from the specific tax on alcoholic beverages;
- from 2017-2018 to 2043-2044, \$215 million per year from Hydro-Québec;
- sale of government assets, rights or securities;¹
- unclaimed property administered by Revenu Québec;
- gifts, legacies and other contributions received by the Minister of Finance;
- income generated by the investment of the sums making up the Fund.

The *Act to reduce the debt and establish the Generations Fund* also allows the government to order that a part, which it establishes, of any sum that would otherwise have been attributed to the general fund of the Consolidated Revenue Fund be allocated to the Generations Fund.

Requirements of the Act (cont.)

Similarly, that Act authorizes the government, subject to the provisions of the *Balanced Budget Act*, to use the stabilization reserve to deposit amounts in the Generations Fund.

The amounts constituting the Fund are deposited with the Caisse de dépôt et placement du Québec and managed in accordance with an investment policy determined by the Minister of Finance, in collaboration with the Caisse.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the evolution of the debt representing accumulated deficits and the gross debt, on the amounts constituting the Fund and any amounts used to repay the gross debt.

¹ An order in council of the government is required to set the portion of these amounts that must be allocated to the Generations Fund.

2.2 Sums dedicated to the Generations Fund

In 2014-2015, \$1.3 billion was deposited in the Generations Fund. The downward adjustment of \$48 million compared to Budget 2014-2015 is due primarily to lower-than-forecast investment income.

For 2015-2016, \$1.7 billion will be devoted to the Generations Fund, i.e. \$1.6 billion from revenue sources dedicated to the Fund, to which will be added \$89 million resulting from the allocation of the accumulated surplus of the Commission des normes du travail to the Fund.

For 2016-2017, the revenue of the Generations Fund should reach \$2.2 billion.

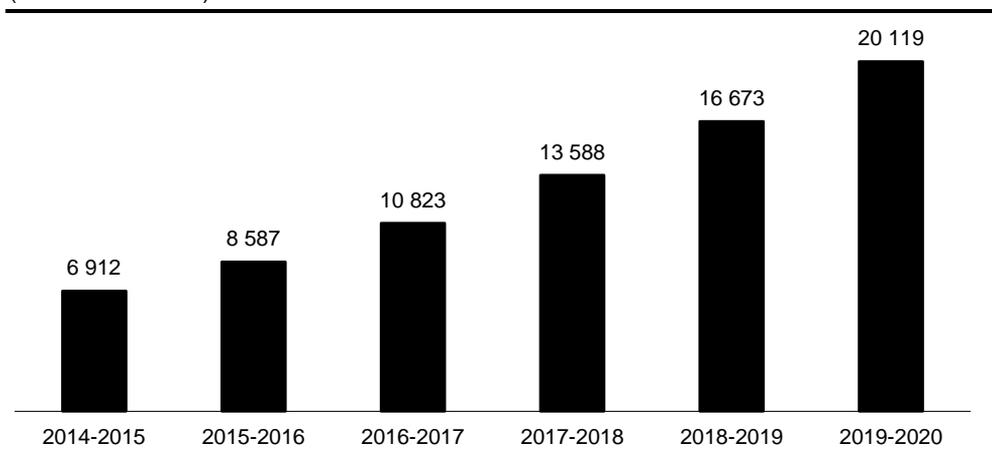
Taking into account the deposits since its creation and those forecast for the coming years, as well as the use of the Generations Fund to repay maturing borrowings,⁴ the book value of the Generations Fund will reach:

- \$6.9 billion as at March 31, 2015;
- \$8.6 billion as at March 31, 2016;
- \$10.8 billion as at March 31, 2017.

The Generations Fund should reach \$20.1 billion as at March 31, 2020.

CHART B.2

Growth in the book value of the Generations Fund^P (millions of dollars)



P: Preliminary results for 2014-2015 and forecasts for subsequent years.

⁴ In 2013-2014, the government used \$1 billion of the Generations Fund to repay maturing borrowings.

TABLE B.2

Generations Fund
(millions of dollars)

	Budget 2014-2015		Budget 2015-2016 ^P					
	2014-2015	Adjustments	2014- 2015	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020
BOOK VALUE, BEGINNING OF YEAR	5 659	—	5 659	6 912	8 587	10 823	13 588	16 673
DEDICATED REVENUES								
Water-power royalties								
Hydro-Québec	661	-7	654	663	678	693	710	724
Private producers	91	4	95	93	94	96	97	100
	752	-3	749	756	772	789	807	824
Indexation of the price of heritage electricity	71	—	71	105	175	270	365	470
Other contributions from Hydro-Québec	—	—	—	—	—	215	215	215
Mining revenues	—	—	—	116	171	216	241	276
Specific tax on alcoholic beverages	100	—	100	100	500	500	500	500
Unclaimed property	10	21	31	25	12	12	12	12
Investment income	368	-66	302	484	606	763	945	1 149
Total of dedicated revenues	1 301	-48	1 253	1 586	2 236	2 765	3 085	3 446
Deposit from the accumulated surplus of the Commission des normes du travail	—	—	—	89	—	—	—	—
Total of deposits	1 301	-48	1 253	1 675	2 236	2 765	3 085	3 446
BOOK VALUE, END OF YEAR	6 960	-48	6 912	8 587	10 823	13 588	16 673	20 119

P: Preliminary results for 2014-2015 and forecasts for subsequent years.

Section C

ADDITIONAL INFORMATION AND HISTORICAL DATA

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Note:

Data for 1997-1998 and subsequent years take into account, in particular, the changes made to the family policy over the years, the amalgamations and abolitions of certain government bodies and the changes made to the recording of transfers made through the tax system.

1. ADDITIONAL INFORMATION

TABLE C.1

Summary of consolidated budgetary and financial transactions⁽¹⁾ (millions of dollars)

	2010- 2011	2011- 2012	2012- 2013	2013- 2014
Budgetary transactions of the general fund				
Own-source revenue	47 225	50 272	49 983 ⁽²⁾	53 242
Federal transfers	15 425	15 243	15 707	16 528
Total budgetary revenue	62 650	65 515	65 690	69 770
Program spending	-59 978	-61 503	-62 247	-64 322
Debt service	-7 084	-7 348	-7 766	-8 434
Total budgetary expenditure	-67 062	-68 851	-70 013	-72 756
Consolidated entities⁽³⁾	2 022	1 548	1 808	1 283
SURPLUS (DEFICIT)	-2 390	-1 788	-2 515	-1 703
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund	-760	-840	-961	-1 121
Exclusion – Extraordinary loss ⁽⁴⁾	—	—	1 876	—
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	-3 150	-2 628	-1 600	-2 824
Deposits of dedicated revenues in the Generations Fund	760	840	961	1 121
Extraordinary loss – Closure of Gentilly-2	—	—	-1 876	—
CONSOLIDATED BUDGETARY BALANCE	-2 390	-1 788	-2 515	-1 703
Non-budgetary transactions				
Investments, loans and advances	-3 173	-1 861	-775	-1 349
Capital expenditures ⁽⁵⁾	-4 018	-3 623	-3 312	-3 030
Retirement plans and other employee future benefits	3 526	2 918	2 898	3 352
Other accounts	1 901	-1 160	-414	2 321
NON-BUDGETARY REQUIREMENTS	-1 764	-3 726	-1 603	1 294
NET FINANCIAL REQUIREMENTS	-4 154	-5 514	-4 118	-409

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

- (1) Certain data for previous fiscal years have been reclassified for consistency with the presentation adopted in the subsequent fiscal year. However, as regards accounting changes, the data for previous years have not been restated because they cannot be established with reasonable effort.
- (2) Including Hydro-Québec's extraordinary loss of \$1 876 million stemming from the closure of the Gentilly-2 nuclear power plant.
- (3) The net results of consolidated entities include consolidation adjustments.
- (4) Since this is a one-time event unrelated to management of the government's current operations, the *Balanced Budget Act*, as amended on June 14, 2013, excludes from the budgetary balance Hydro-Québec's extraordinary loss stemming from the closure of the Gentilly-2 nuclear power plant.
- (5) Excluding investments made under public-private partnership that do not have an impact on net financial requirements because they were made and financed by private-sector partners.

TABLE C.2

General fund revenue by source
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Own-source revenue				
Income and property taxes				
Personal income tax	17 913	18 980	18 753	19 399
Contributions to the Health Services Fund	5 974	6 246	6 597	6 780
Corporate taxes	3 639	3 894	3 919	3 254
Subtotal	27 526	29 120	29 269	29 433
Consumption taxes				
Sales	11 468	13 159	14 287	15 148
Tobacco	764	802	795	889
Alcoholic beverages	446	440	480	551
Other	-9	18	21	19
Subtotal	12 669	14 419	15 583	16 607
Duties and permits				
Natural resources	310	340	199	46
Other	275	263	252	268
Subtotal	585	603	451	314
Miscellaneous revenue				
Sales of goods and services	438	366	369	395
Interest	438	455	488	407
Fines, forfeitures and recoveries	731	560	591	656
Subtotal	1 607	1 381	1 448	1 458
Revenue from government enterprises				
Hydro-Québec ⁽¹⁾	2 481	2 549	919 ⁽²⁾	3 333
Loto-Québec ⁽¹⁾	1 247	1 196	1 194	1 055
Société des alcools du Québec	915	1 000	1 030	1 003
Other ⁽¹⁾	195	4	89	39
Subtotal	4 838	4 749	3 232	5 430
Total	47 225	50 272	49 983	53 242
Federal transfers				
Equalization	8 552	7 815	7 391	7 833
Protection payment	—	369	362	—
Health transfers	4 309	4 511	4 792	5 290
Transfers for post-secondary education and other social programs	1 455	1 488	1 486	1 534
Compensation for harmonization of the QST with the GST	—	—	733	1 037
Other programs	1 109	1 060	943	834
Total	15 425	15 243	15 707	16 528
TOTAL REVENUE	62 650	65 515	65 690	69 770

(1) Consolidation adjustments are included in the results of the entities to which they refer.

(2) Including Hydro-Québec's extraordinary loss of \$1 876 million stemming from the closure of the Gentilly-2 nuclear power plant.

TABLE C.3

General fund expenditure

(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Expenditure excluding debt service⁽¹⁾	59 978	61 503	62 247	64 322
Debt service				
Direct debt service	4 429	4 595	4 770	5 148
Interest ascribed to the retirement plans	2 662	2 763	3 007	3 295
Interest ascribed to employee future benefits	-7	-10	-11	-9
Total	7 084	7 348	7 766	8 434
TOTAL EXPENDITURE	67 062	68 851	70 013	72 756

(1) Expenditure by department is presented in the documents relating to the Expenditure Budget of the Secrétariat du Conseil du trésor.

TABLE C.4

Consolidated non-budgetary transactions
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Investments, loans and advances				
General fund				
Government enterprises				
Share capital and investments				
Investissement Québec	—	-400	—	—
Other	2 ⁽¹⁾	—	—	—
Change in the equity value of investments	-790	-595	-363	-1 165
Loans and advances				
Investissement Québec	—	-127	-46	-66
Hydro-Québec	-49	200	—	—
Loto-Québec	-99	101	-34	-100
Other	-1	1	—	1
Total government enterprises	-937	-820	-443	-1 330
Individuals, corporations and others				
Municipalities and municipal bodies	—	16	16	15
Other	274	-806	5	1 009
Total general fund	-663	-1 610	-422	-306
Consolidated entities	-2 510	-251	-353	-1 043
TOTAL INVESTMENTS, LOANS AND ADVANCES	-3 173	-1 861	-775	-1 349

TABLE C.4 (cont.)

Consolidated non-budgetary transactions
 (millions of dollars)

	2010–2011	2011–2012	2012–2013	2013–2014
Capital expenditures⁽²⁾				
General fund				
Net investments	–312	–169	–168	–162
Depreciation	149	150	147	145
Consolidated entities	–3 855	–3 604	–3 291	–3 013
Total capital expenditures	–4 018	–3 623	–3 312	–3 030
Retirement plans and other employee future benefits				
Cost of vested benefits, ⁽³⁾ amortization and contributions	2 623	2 554	2 581	3 014
Interest on the actuarial obligation	4 817	4 931	5 079	5 382
Benefits, repayments and administrative expenses	–4 095	–4 791	–4 991	–5 279
Consolidated entities	181	224	229	235
Total retirement plans and other employee future benefits	3 526	2 918	2 898	3 352
Other accounts				
General fund	1 362	–832	–236	334
Consolidated entities	539	–328	–178	1 987
Total other accounts	1 901	–1 160	–414	2 321
TOTAL NON-BUDGETARY TRANSACTIONS	–1 764	–3 726	–1 603	1 294

(1) On May 1, 2010, the Fonds d'indemnisation du courtage immobilier was transferred without consideration to an entity not included in the government's reporting entity in accordance with the *Real Estate Brokerage Act* (CQLR, chapter C-73.2).

(2) Excluding investments made under public-private partnership that do not have an impact on net financial requirements because they were made and financed by private-sector partners.

(3) Actuarial value of retirement benefits credited during the fiscal year, calculated according to the actuarial projected benefit method prorated on service.

TABLE C.5

Consolidated financing transactions⁽¹⁾
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Change in cash position				
General fund	-235	82	951	-2 320
Consolidated entities	-1 653	69	-51	-17
Total	-1 888	151	900	-2 337
Net borrowings				
General fund				
New borrowings	9 321	14 228	12 498	12 530
Repayment of borrowings	-4 581	-7 503	-8 045	-8 446 ⁽²⁾
Subtotal	4 740	6 725	4 453	4 084
Consolidated entities				
New borrowings	10 194	7 068	7 798	8 735
Repayment of borrowings	-3 810	-4 321	-4 778	-6 480
Subtotal	6 384	2 747	3 020	2 255
Total	11 124	9 472	7 473	6 339
Retirement Plans Sinking Fund,⁽³⁾ other retirement plan assets and funds dedicated to employee future benefits⁽⁴⁾				
	-4 322	-3 269	-3 294	-3 172
Generations Fund				
	-760	-840	-961	-421⁽⁵⁾
TOTAL FINANCING TRANSACTIONS	4 154	5 514	4 118	409

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

(2) A sum of \$1 000 million from the Generations Fund was used for debt repayment.

(3) This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to determine the debt service on the retirement plans liability.

(4) Employee future benefits funds receive amounts used to cover employee future benefits (accumulated sick leave and survivor's pension) payable to government employees.

(5) The change in the balance of the Generations Fund includes revenue of \$1 121 million (\$961 million in 2012-2013) plus a deposit of \$300 million out of the Territorial Information Fund minus the sum of \$1 000 million used for debt repayment.

2. HISTORICAL DATA

TABLE C.6

Budgetary transactions of the general fund⁽¹⁾ (millions of dollars)

	Own-source revenue ^{(2),(3)}	Federal transfers ⁽⁴⁾	Budgetary revenue	Program spending	Debt service	Budgetary expenditure
1989-1990	24 359	6 674	31 033	-28 782	-4 015	-32 797
1990-1991	26 073	6 972	33 045	-31 583	-4 437	-36 020
1991-1992	27 720	6 747	34 467	-34 102	-4 666	-38 768
1992-1993	27 561	7 764	35 325	-35 599	-4 756	-40 355
1993-1994	28 165	7 762	35 927	-35 534	-5 316	-40 850
1994-1995	28 815	7 494	36 309	-36 248	-5 882	-42 130
1995-1996	30 000	8 126	38 126	-36 039	-6 034	-42 073
1996-1997	30 522	6 704	37 226	-34 583	-5 855	-40 438
After government accounting reform in 1997-1998						
1997-1998	30 387	5 656	36 043	-32 954	-7 039	-39 993
1998-1999	32 906	7 813	40 719	-35 352	-6 853	-42 205
1999-2000	35 370	6 064	41 434	-35 955	-7 035	-42 990
2000-2001	37 441	7 895	45 336	-38 311	-7 248	-45 559
2001-2002	35 652 ⁽⁵⁾	8 885	44 537 ⁽⁵⁾	-40 088	-6 930	-47 018
2002-2003	37 332 ⁽⁵⁾	8 932	46 264 ⁽⁵⁾	-41 865	-6 804	-48 669
2003-2004	38 849 ⁽⁵⁾	9 370	48 219 ⁽⁵⁾	-43 357	-6 850	-50 207
2004-2005	41 097	9 229	50 326	-45 480	-7 035	-52 515
2005-2006	42 391	9 969	52 360	-46 782	-7 042	-53 824
After government accounting reform in 2006-2007						
2006-2007	46 184	11 015	57 199	-49 022	-7 185	-56 207
2007-2008	45 881	13 629	59 510	-51 774	-7 160	-58 934
2008-2009	45 152	14 023	59 175	-55 197	-6 639	-61 836
2009-2010	44 129	15 161	59 290	-58 215	-6 240	-64 455
2010-2011	47 225	15 425	62 650	-59 978	-7 084	-67 062
2011-2012	50 272	15 243	65 515	-61 503	-7 348	-68 851
2012-2013	49 983 ⁽⁵⁾	15 707	65 690 ⁽⁵⁾	-62 247	-7 766	-70 013
2013-2014	53 242	16 528	69 770	-64 322	-8 434	-72 756

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) Data for the general fund exclude the revenue and expenditure of specified purpose accounts, agencies and special funds, the health and social services and education networks, and the Generations Fund.

(2) Own-source revenue includes that of government enterprises.

(3) For 1997-1998 and subsequent years, doubtful tax accounts are applied against revenue.

(4) Federal transfer revenues are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

(5) Revenue includes the extraordinary losses of the Société générale de financement du Québec, i.e. \$91 million in 2001-2002, \$339 million in 2002-2003 and \$358 million in 2003-2004, as well as Hydro-Québec's extraordinary loss of \$1 876 million stemming from the closure of the Gently-2 nuclear power plant in 2012-2013.

TABLE C.7

**Budgetary transactions of consolidated entities⁽¹⁾
from 1997-1998 to 2008-2009⁽²⁾**
(millions of dollars)

	Own- source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms⁽³⁾							
1989 to 1997							
After government accounting reform in 1997-1998							
1997-1998	3 904	319	4 223	-2 127	-303	-2 430	1 793
1998-1999	4 281	298	4 579	-2 633	-334	-2 967	1 612
1999-2000	4 445	325	4 770	-2 869	-338	-3 207	1 563
2000-2001	4 439	239	4 678	-2 720	-358	-3 078	1 600
2001-2002	4 561	262	4 823	-2 939	-331	-3 270	1 553
2002-2003	4 947	262	5 209	-3 204	-328	-3 532	1 677
2003-2004	5 177	299	5 476	-3 455	-391	-3 846	1 630
2004-2005	5 252	323	5 575	-3 636	-414	-4 050	1 525
2005-2006	5 795	317	6 112	-4 094	-517	-4 611	1 501
After government accounting reform in 2006-2007^{(4),(5)}							
2006-2007	6 338	383	6 721	-4 266	-1 538	-5 804	917
2007-2008	6 746	388	7 134	-4 917	-1 592	-6 509	625
2008-2009	6 666	349	7 015	-4 707	-1 492	-6 199	816

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

- (1) Consolidated entities include non-budget-funded bodies, special funds (excluding the Generations Fund) and organizations in the health and social services and education networks.
- (2) As of 2009-2010, following the line-by-line consolidation of organizations in the health and social services and education networks, data on budgetary transactions are shown separately for non-budget-funded bodies, special funds and network organizations (see tables C.7(a), C.7(b) and C.7(c)).
- (3) Data are not available prior to 1997-1998 because the government did not prepare consolidated financial statements.
- (4) From 2006-2007 to 2008-2009, the results of the health and social services and education networks were established using the modified equity method. For 2009-2010 and subsequent years, the revenue and expenditure of the networks are consolidated line by line.
- (5) Since the 2006-2007 accounting reform, pursuant to the *Balanced Budget Act*, the financial data presented correspond to those published in the financial statements for the fiscal year concerned. They do not include restatements that may be made in subsequent fiscal years.

TABLE C.7(a)

**Budgetary transactions of consolidated entities
Special funds
2009-2010 and subsequent years**
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
With line-by-line consolidation of the networks⁽¹⁾								
2009-2010	4 590	1 776	465	6 831	-5 141	-654	-5 795	1 036
2010-2011	5 083	1 845	382	7 310	-5 649	-817	-6 466	844
2011-2012	6 054	2 161	86	8 301	-6 645	-973	-7 618	683
2012-2013	6 707	1 882	160	8 749	-7 040	-1 047	-8 087	662
2013-2014	7 239	1 973	545	9 757	-8 255	-1 204	-9 459	298

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) For 2009-2010 and subsequent years, following the line-by-line consolidation of the health and social services and education networks, data on budgetary transactions are shown separately for non-budget-funded bodies, special funds and network organizations (see tables C.7(b) and C.7 (c)).

TABLE C.7(b)

**Budgetary transactions of consolidated entities
Non-budget-funded bodies
2009-2010 and subsequent years**
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
With line-by-line consolidation of the networks⁽¹⁾								
2009-2010	5 632	10 639	1 000	17 271	-15 918	-1 086	-17 004	267
2010-2011	5 885	10 593	604	17 082	-15 681	-1 194	-16 875	207
2011-2012	6 086	10 963	911	17 960	-16 638	-1 219	-17 857	103
2012-2013	6 197	11 316	1 087	18 600	-17 270	-1 140	-18 410	190
2013-2014	6 411	11 965	985	19 361	-18 202	-1 074	-19 276	85

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) For 2009-2010 and subsequent years, following the line-by-line consolidation of the health and social services and education networks, data on budgetary transactions are shown separately for non-budget-funded bodies, special funds and network organizations (see tables C.7(a) and C.7 (c)).

TABLE C.7(c)

**Budgetary transactions of consolidated entities
Organizations in the health and social services and education networks
2009-2010 and subsequent years**
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Line-by-line consolidation of the networks⁽¹⁾								
2009-2010	5 413	28 022	229	33 664	-32 828	-677	-33 505	159
2010-2011	5 234	29 016	310	34 560	-33 602	-798	-34 400	160
2011-2012	5 527	30 079	230	35 836	-35 280	-851	-36 131	-295
2012-2013	5 702	31 657	306	37 665	-36 768	-850	-37 618	47
2013-2014	5 704	32 312	283	38 299	-37 526	-834	-38 360	-61

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) As of 2009-2010, following the line-by-line consolidation of the health and social services and education networks, data on budgetary transactions are shown separately for non-budget-funded bodies, special funds and network organizations (see tables C.7(a) and C.7(b)).

TABLE C.8

**Budgetary transactions of consolidated entities
Generations Fund⁽¹⁾**
(millions of dollars)

	Dedicated revenues							Other deposits	Deposits in the Generations Fund
	Water-power royalties		Unclaimed property	Other	Investment income	Total			
	Hydro-Québec	Private producers							
2006-2007	65	11	5	500	3	584	—	584	
2007-2008	367	46	—	—	36	449	200	649	
2008-2009	548	88	1	—	-50	587	132 ⁽²⁾	719	
2009-2010	569	89	7	—	60	725	—	725	
2010-2011	560	90	16	—	94	760	—	760	
2011-2012	591	91	9	—	149	840	—	840	
2012-2013	625	92	12	—	232	961	—	961	
2013-2014	670	93	19	—	339	1 121	300 ⁽³⁾	1 421	

(1) The Generations Fund began operations on January 1, 2007 pursuant to the *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter R-2.2.0.1).

(2) Deposit of \$132 million from the stabilization reserve derived from the sale of assets of the Société immobilière du Québec.

(3) Deposit of \$300 million from the Territorial Information Fund.

TABLE C.9

**Budgetary transactions
Specified purpose accounts**
(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms⁽¹⁾							
1989-1997							
After government accounting reform in 1997-1998							
1997-1998	119	486	605	-605	—	-605	—
1998-1999	121	181	302	-302	—	-302	—
1999-2000	138	141	279	-279	—	-279	—
2000-2001	158	185	343	-343	—	-343	—
2001-2002	193	329	522	-522	—	-522	—
2002-2003	242	263	505	-505	—	-505	—
2003-2004	219	451	670	-670	—	-670	—
2004-2005	211	387	598	-598	—	-598	—
2005-2006	229	836	1 065	-1 065	—	-1 065	—
After government accounting reform in 2006-2007							
2006-2007	237	572	809	-809	—	-809	—
2007-2008	267	716	983	-983	—	-983	—
2008-2009	257	709	966	-966	—	-966	—
2009-2010	295	857	1 152	-1 152	—	-1 152	—
2010-2011	135	1 481	1 616	-1 616	—	-1 616	—
2011-2012	252	1 225	1 477	-1 477	—	-1 477	—
2012-2013	225	873	1 098	-1 098	—	-1 098	—
2013-2014	198	813	1 011	-1 011	—	-1 011	—

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) Data are not available prior to 1997-1998 because the government did not prepare consolidated financial statements.

TABLE C.10

Expenditures financed through the tax system and consolidation adjustments

(millions of dollars)

Expenditures financed through the tax system								
Transfers financed through the tax system		Reclassification of doubtful tax accounts		Consolidation adjustments^{(1),(2)}				
Own-source revenue	Expenditure excluding debt service	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Québec government transfers	Federal transfers	Expenditure excluding debt service	Debt service
Before government accounting reforms⁽³⁾								
1989-1997								
After government accounting reform in 1997-1998								
1997-1998	2 577	-2 577	649	-649				
1998-1999	2 613	-2 613	404	-404				
1999-2000	2 551	-2 551	298	-298				
2000-2001	2 453	-2 453	265	-265				
2001-2002	2 535	-2 535	143	-143				
2002-2003	2 868	-2 868	278	-278				
2003-2004	2 988	-2 988	195	-195				
2004-2005	3 291	-3 291	414	-414				
2005-2006	3 729	-3 729	497	-497				

(1) The consolidation adjustments stem mainly from the elimination of transactions between entities in different sectors.

(2) For 1997-1998 to 2008-2009, consolidation adjustments are not shown separately and are included in the budgetary transactions of consolidated entities.

(3) Not all of the information is available for 1989-1990 to 1996-1997. Therefore, the financial data are not presented.

TABLE C.10 (cont.)

Expenditures financed through the tax system and consolidation adjustments
(millions of dollars)

	Expenditures financed through the tax system								
	Transfers financed through the tax system		Reclassification of doubtful tax accounts		Consolidation adjustments^{(1),(2)}				
	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Québec government transfers	Federal transfers	Expenditure excluding debt service	Debt service
After government accounting reform in 2006-2007									
2006-2007	4 248	-4 248	548	-548					
2007-2008	4 382	-4 382	668	-668					
2008-2009	4 686	-4 686	798	-798					
With line-by-line consolidation of the networks									
2009-2010	4 978	-4 978	900	-900	-5 168	-40 437	-602	45 432	813
2010-2011	5 163	-5 163	933	-933	-5 048	-41 454	-709	46 304	958
2011-2012	5 142	-5 142	871	-871	-5 572	-43 203	-757	48 809	940
2012-2013	5 317	-5 317	697	-697	-5 309	-44 855	-616	49 764	964
2013-2014	5 744	-5 744	573	-573	-5 551	-46 250	-604	51 297	948

TABLE C.11

Summary of consolidated budgetary transactions^{(1),(2)}
(millions of dollars)

	Own-source revenue	Federal transfers ⁽³⁾	Consolidated revenue	Expenditure excluding debt service	Debt service	Consolidated expenditure
Before government accounting reforms						
1989-1990	24 359	6 674	31 033	-28 782	-4 015	-32 797
1990-1991	26 073	6 972	33 045	-31 583	-4 437	-36 020
1991-1992	27 720	6 747	34 467	-34 102	-4 666	-38 768
1992-1993	27 561	7 764	35 325	-35 599	-4 756	-40 355
1993-1994	28 165	7 762	35 927	-35 534	-5 316	-40 850
1994-1995	28 815	7 494	36 309	-36 248	-5 882	-42 130
1995-1996	30 000	8 126	38 126	-36 039	-6 034	-42 073
1996-1997	30 522	6 704	37 226	-34 583	-5 855	-40 438
After government accounting reform in 1997-1998						
1997-1998	37 636	6 461	44 097	-38 912	-7 342	-46 254
1998-1999	40 325	8 292	48 617	-41 304	-7 187	-48 491
1999-2000	42 802	6 530	49 332	-41 952	-7 373	-49 325
2000-2001	44 756	8 319	53 075	-44 092	-7 606	-51 698
2001-2002	43 084 ⁽⁶⁾	9 476	52 560	-46 227	-7 261	-53 488
2002-2003	45 667 ⁽⁶⁾	9 457	55 124	-48 720	-7 132	-55 852
2003-2004	47 428 ⁽⁶⁾	10 120	57 548	-50 665	-7 241	-57 906
2004-2005	50 265	9 939	60 204	-53 419	-7 449	-60 868
2005-2006	52 641	11 122	63 763	-56 167	-7 559	-63 726
After government accounting reform in 2006-2007⁽⁷⁾						
2006-2007	57 639	11 970	69 609	-58 893	-8 723	-67 616
2007-2008	58 393	14 733	73 126	-62 724	-8 752	-71 476
2008-2009	58 146	15 081	73 227	-66 354	-8 131	-74 485
With line-by-line consolidation of the networks⁽⁷⁾						
2009-2010	61 494	17 110	78 604	-73 700	-7 844	-81 544
2010-2011	65 370	17 493	82 863	-76 318	-8 935	-85 253
2011-2012	69 472	16 938	86 410	-78 747	-9 451	-88 198
2012-2013	70 480 ⁽⁶⁾	17 517	87 997	-80 673	-9 839	-90 512
2013-2014	74 681	18 550	93 231	-84 336	-10 598	-94 934

(1) At the time of an accounting reform or an accounting change, the data for previous years are not restated because they cannot be established with reasonable effort. Therefore, judgment must be exercised in making comparisons.

(2) For consistency with the financial data presented in the public accounts for years prior to 2009-2010, the consolidated budgetary balance for those years does not take into account the changes made by the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (S.Q. 2009, chapter 38) to the mechanics of the reserve. As of 2009-2010, the data take the impact of the Act into account.

(3) Shown on a cash basis until 2004-2005 and on an accrual basis thereafter.

(4) Since this is a one-time event unrelated to management of the government's current operations, the *Balanced Budget Act*, as amended on June 14, 2013, excludes from the budgetary balance Hydro-Québec's extraordinary loss stemming from the closure of the Gentilly-2 nuclear power plant.

Revenues dedicated to the Generations Fund	Uses of (Allocations to) the reserve	Exclusion – Extraordinary loss ⁽⁴⁾	Budgetary balance within the meaning of the Act after reserve ^{(2),(5)}	Revenues dedicated to the Generations Fund	Extraordinary loss – Closure of Gently-2	Consolidated budgetary balance
			-1 764			-1 764
			-2 975			-2 975
			-4 301			-4 301
			-5 030			-5 030
			-4 923			-4 923
			-5 821			-5 821
			-3 947			-3 947
			-3 212			-3 212
			-2 157			-2 157
			126			126
			7			7
	-950		427			427
	950		22			22
			-728			-728
			-358			-358
			-664			-664
			37			37
-584	-1 300		109	584		693
-449	-1 201			449		449
-587	1 845			587		587
-725	491 ⁽⁸⁾		-3 174	725		-2 449
-760			-3 150	760		-2 390
-840			-2 628	840		-1 788
-961		1 876	-1 600	961	-1 876	-2 515
-1 121			-2 824	1 121		-1 703

(5) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account the allocations to and uses of the stabilization reserve.

(6) Own-source revenue includes the extraordinary losses of the Société générale de financement du Québec, i.e. \$91 million in 2001-2002, \$339 million in 2002-2003 and \$358 million in 2003-2004, as well as Hydro-Québec's extraordinary loss of \$1 876 million stemming from the closure of the Gently-2 nuclear power plant in 2012-2013.

(7) From 2006-2007 to 2008-2009, the net results of the health and social services and education networks were established using the modified equity method. As of 2009-2010, the revenue and expenditure of the networks are consolidated line by line, like those of non-budget-funded bodies and special funds.

(8) Including an accounting change of \$58 million.

TABLE C.12

Consolidated revenue and expenditure for historical growth analysis purposes^{(1),(2)}
(millions of dollars)

Revenue			Expenditure					
Consolidated revenue	Growth rate	Expenditure excluding debt service	Growth rate	Debt service	Growth rate	Consolidated expenditure	Growth rate	
Before government accounting reforms⁽³⁾								
1989 to 1997								
After government accounting reform in 1997-1998								
1997-1998	44 097	n/a	-38 912	n/a	-7 342	n/a	-46 254	n/a
1998-1999	48 617	10.3%	-41 304	6.1%	-7 187	-2.1%	-48 491	4.8%
1999-2000	49 332	1.5%	-41 952	1.6%	-7 373	2.6%	-49 325	1.7%
2000-2001	53 075	7.6%	-44 092	5.1%	-7 606	3.2%	-51 698	4.8%
2001-2002	52 560	-1.0%	-46 227	4.8%	-7 261	-4.5%	-53 488	3.5%
2002-2003	55 124	4.9%	-48 720	5.4%	-7 132	-1.8%	-55 852	4.4%
2003-2004	57 548	4.4%	-50 665	4.0%	-7 241	1.5%	-57 906	3.7%
2004-2005	60 204	4.6%	-53 419	5.4%	-7 449	2.9%	-60 868	5.1%
2005-2006	63 763	5.9%	-56 167	5.1%	-7 559	1.5%	-63 726	4.7%

(1) At the time of an accounting reform or an accounting change, the data for previous years are not restated because they cannot be established with reasonable effort. Therefore, judgment must be exercised in making comparisons.

(2) For consistency with the financial data presented in the public accounts for years prior to 2009-2010, the consolidated budgetary balance for those years does not take into account the changes made by the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (S.Q. 2009, chapter. 38) to the mechanics of the reserve. As of 2009-2010, the data take the impact of the Act into account.

(3) Data are not available prior to 1997-1998 because the government did not prepare consolidated financial statements.

TABLE C.12 (cont.)

Consolidated revenue and expenditure for historical growth analysis purposes^{(1),(2)}
(millions of dollars)

	Revenue		Expenditure					
	Consolidated revenue	Growth rate	Expenditure excluding debt service	Growth rate	Debt service	Growth rate	Consolidated expenditure	Growth rate
After government accounting reform in 2006-2007⁽⁴⁾								
2006-2007	69 609	9.2%	-58 893	4.9%	-8 723	15.4%	-67 616	6.1%
2007-2008	73 126	5.1%	-62 724	6.5%	-8 752	0.3%	-71 476	5.7%
2008-2009	73 227	0.1%	-66 354	5.8%	-8 131	-7.1%	-74 485	4.2%
2009-2010 ⁽⁵⁾	74 898	2.3%	-70 060	5.6%	-7 778	-4.3%	-77 838	4.5%
With line-by-line consolidation of the networks⁽⁴⁾								
2009-2010 ⁽⁵⁾	78 604	n/a	-73 700	n/a	-7 844	n/a	-81 544	n/a
2010-2011	82 863	5.4%	-76 318	3.6%	-8 935	13.9%	-85 253	4.5%
2011-2012	86 410	4.3%	-78 747	3.2%	-9 451	5.8%	-88 198	3.5%
2012-2013 ⁽⁶⁾	87 997 ⁽⁷⁾	2.0%	-80 673	2.5%	-9 839	4.1%	-90 512	2.7%
2013-2014 ⁽⁸⁾	93 231	6.1%	-84 336	4.7%	-10 598	7.7%	-94 934	5.1%

(4) From 2006-2007 to 2008-2009, the results of the health and social services and education networks were established using the modified equity method. As of 2009-2010, the revenue and expenditure of the networks are consolidated line by line, like those of non-budget-funded bodies and special funds.

(5) To facilitate the comparability of historical data and due to the amounts involved, we have presented two results for 2009-2010. The first is obtained using the modified equity basis of consolidation for network organizations and the second, using the line-by-line consolidation method. The latter method is used as of this fiscal year.

(6) The growth rates were established using 2011-2012 data restated to reflect the accounting changes made in 2012-2013. These data are available on page 81 of Volume 1 of Public Accounts 2012-2013.

(7) Including Hydro-Québec's extraordinary loss of \$1 876 million stemming from the closure of the Gently-2 nuclear power plant.

(8) The growth rates were established using 2012-2013 data to reflect reclassification for consistency with the presentation adopted in 2013-2014. These data are available on page 87 of Volume 1 of Public Accounts 2013-2014.

TABLE C.13

Consolidated expenditure by mission⁽¹⁾
(millions of dollars)

	Health and Social Services	Education and Culture	Economy and Environment	Support for Individuals and Families	Administration and Justice	Debt service	Total
After government accounting reform in 1997-1998							
1997-1998	-13 329	-10 112	-5 715	-5 897	-3 859	-7 342	-46 254
1998-1999	-15 072	-10 376	-6 253	-6 204	-3 399	-7 187	-48 491
1999-2000	-15 360	-10 736	-6 673	-5 967	-3 216	-7 373	-49 325
2000-2001	-16 711	-11 120	-6 825	-5 934	-3 502	-7 606	-51 698
2001-2002	-17 826	-11 491	-6 763	-6 251	-3 896	-7 261	-53 488
2002-2003	-18 683	-12 057	-7 231	-6 408	-4 341	-7 132	-55 852
2003-2004	-19 953	-12 514	-7 274	-6 537	-4 387	-7 241	-57 906
2004-2005	-21 552	-12 837	-7 276	-6 896	-4 858	-7 449	-60 868
2005-2006	-22 481	-13 346	-7 806	-7 550	-4 984	-7 559	-63 726
After government accounting reform in 2006-2007⁽²⁾							
2006-2007	-23 658	-13 280	-8 575	-7 939	-5 441	-8 723	-67 616
2007-2008	-25 300	-14 298	-9 391	-8 147	-5 588	-8 752	-71 476
2008-2009	-27 028	-14 869	-9 993	-8 288	-6 176	-8 131	-74 485
With line-by-line consolidation of the networks⁽²⁾							
2009-2010	-30 003	-17 938	-10 543	-8 611	-6 605	-7 844	-81 544
2010-2011	-31 175	-18 635	-11 293	-8 911	-6 304	-8 935	-85 253
2011-2012	-32 473	-19 340	-11 491	-9 148	-6 295	-9 451	-88 198
2012-2013	-34 174	-19 528	-11 316	-9 333	-6 322	-9 839	-90 512
2013-2014	-35 602	-20 620	-11 859	-9 543	-6 712	-10 598	-94 934

Note: Data are based on the best data available. However, certain data are reasonable estimates, in particular those for the earliest years.

- (1) At the time of an accounting reform or an accounting change, the data for previous years are not restated because they cannot be established with reasonable effort. Therefore, judgment must be exercised in making comparisons.
- (2) From 2006-2007 to 2008-2009, the results of the health and social services and education networks were established using the modified equity method. As of 2009-2010, the revenue and expenditure of the networks are consolidated line by line, like those of non-budget-funded bodies and special funds.

TABLE C.14

Summary of non-budgetary transactions
(millions of dollars)

	Non-budgetary transactions			
	Consolidated budgetary balance	Investments, loans and advances	Capital expenditures ⁽¹⁾	Net investments in the networks ⁽²⁾
Before government accounting reforms				
1989-1990	-1 764	-516		
1990-1991	-2 975	-458		
1991-1992	-4 301	-411		
1992-1993	-5 030	-490		
1993-1994	-4 923	-623		
1994-1995	-5 821	-1 142		
1995-1996	-3 947	-287		
1996-1997	-3 212	-792		
After government accounting reform in 1997-1998				
1997-1998	-2 157	-1 315	-209	
1998-1999	126	-1 402	-217	
1999-2000	7	-2 006	-359	
2000-2001	427	-1 632	-473	
2001-2002	22	-1 142	-995	
2002-2003	-728	-1 651	-1 482	
2003-2004	-358	-1 125	-1 019	
2004-2005	-664	-979	-1 083	
2005-2006	37	-1 182	-1 166	
After government accounting reform in 2006-2007				
2006-2007	693	-2 213	-1 177	-1 002
2007-2008	449	-2 658	-1 378	-487
2008-2009	587	-966	-2 150	-622
With line-by-line consolidation of the networks⁽³⁾				
2009-2010	-2 449	-2 009	-3 939	
2010-2011	-2 390	-3 173	-4 018	
2011-2012	-1 788	-1 861	-3 623	
2012-2013	-2 515	-775	-3 312	
2013-2014	-1 703	-1 349	-3 030	

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

- (1) Excluding investments made under public-private partnership that do not have an impact on net financial requirements because they were made and financed by private-sector partners.
- (2) From 2006-2007 to 2008-2009, the net investments of the health and social services and education networks were established using the modified equity method.
- (3) With line-by-line consolidation, the investments, loans and advances, capital expenditures and other accounts of the networks are taken into account as of 2009-2010.

Non-budgetary transactions			
Retirement plans	Other accounts	Excess amount (shortfall)	Net financial surplus (requirements)
1 164	300	948	-816
1 874	77	1 493	-1 482
1 916	141	1 646	-2 655
1 525	82	1 117	-3 913
1 668	52	1 097	-3 826
1 509	578	945	-4 876
1 701	-415	999	-2 948
1 928	-60	1 076	-2 136
1 888	109	473	-1 684
1 020	996	397	523
1 740	1 328	703	710
1 793	-631	-943	-516
2 089	-589	-637	-615
2 007	217	-909	-1 637
2 219	-1 183	-1 108	-1 466
2 134	174	246	-418
2 310	-208	-246	-209
2 559	-1 620	-3 453	-2 760
2 458	988	-1 077	-628
2 274	645	-819	-232
2 612	1 354	-1 982	-4 431
3 526	1 901	-1 764	-4 154
2 918	-1 160	-3 726	-5 514
2 898	-414	-1 603	-4 118
3 352	2 321	1 294	-409

TABLE C.15

Debt of the Québec government

	Retirement plans							
	Consolidated direct debt ⁽¹⁾		Retirement plans liability ⁽²⁾		Less: Retirement Plans Sinking Fund		Net retirement plans liability	
	(millions \$)	(as a % of GDP)	(millions \$)	(millions \$)	(millions \$)	(millions \$)	(as a % of GDP)	
Before government accounting reforms								
1989-1990	27 699	18.4				14 320	9.5	
1990-1991	29 637	19.0				16 227	10.4	
1991-1992	33 106	21.0				18 143	11.5	
1992-1993	39 231	24.3				19 668	12.2	
1993-1994	45 160	27.3	21 337		-854	20 483	12.4	
1994-1995	52 468	30.2	22 846		-849	21 997	12.6	
1995-1996	52 886	29.2	24 547		-923	23 624	13.0	
1996-1997	52 625	28.5	26 475		-1 014	25 461	13.8	
Data restated to include the impact of the accounting reform in 2006-2007								
1997-1998	69 995	36.2	42 242		-1 179	41 063	21.3	
1998-1999	73 803	36.7	43 350		-2 209	41 141	20.5	
1999-2000	76 166	35.2	45 129		-5 040	40 089	18.6	
2000-2001	80 108	34.7	47 001		-7 059	39 942	17.3	
2001-2002	84 451	35.4	49 106		-10 199	38 907	16.3	
2002-2003	89 083	35.8	51 167		-11 840	39 327	15.8	
2003-2004	93 325	36.0	53 414		-14 204	39 210	15.1	
2004-2005	98 842	36.4	55 634		-18 333	37 301	13.7	
2005-2006	103 339	36.8	58 214		-22 563	35 651	12.7	
2006-2007	110 412	38.0	60 802		-26 877	33 925	11.7	
2007-2008	118 032	38.6	63 442		-31 749	31 693	10.4	
2008-2009	124 629	39.7	65 803		-36 025	29 778	9.5	
Data taking account line-by-line consolidation of the networks								
2008-2009 ⁽³⁾	129 745	41.4	65 803		-36 025	29 778	9.5	
2009-2010	136 074	43.1	67 989		-38 200	29 789	9.4	
2010-2011	147 748	44.8	71 315		-42 265	29 050	8.8	
2011-2012	158 887	46.0	74 079		-45 352	28 727	8.3	
2012-2013	168 612	47.2	76 703		-48 344	28 359	8.2	
2013-2014	174 085	48.0	79 870		-51 333	28 537	8.0	

(1) Excluding deferred foreign exchange gains or losses, the debt contracted by the Financing Fund to finance government enterprises and entities not included in the reporting entity, and pre-financing.

(2) Gross retirement plans liability less the assets of the retirement plans other than the Retirement Plans Sinking Fund.

(3) To facilitate the comparability of historical data and due to the amounts involved, we have presented two results for 2008-2009. The first is obtained using the modified equity basis of consolidation for network organizations and the second, using the line-by-line consolidation method. The latter method is used as of fiscal 2009-2010.

Employee future benefits					
Employee future benefits liability	Less: funds dedicated to employee future benefits	Net employee future benefits liability	Less: Generations Fund	Debt⁽¹⁾	
(millions \$)	(millions \$)	(millions \$)	(millions \$)	(millions \$)	(as a % of GDP)
Total debt – Data not restated to include the impact of the 1997-1998 and 2006-2007 accounting reforms					
				42 019	27.9
				45 864	29.4
				51 249	32.5
				58 899	36.5
				65 643	39.7
				74 465	42.8
				76 510	42.2
				78 086	42.3
Gross debt – Networks consolidated at modified equity value					
759	-292	467		111 525	57.7
805	-317	488		115 432	57.4
867	-361	506		116 761	54.0
894	-382	512		120 562	52.3
938	-384	554		123 912	52.0
1 083	-358	725		129 135	51.9
1 034	-338	696		133 231	51.3
1 086	-335	751		136 894	50.4
1 095	-357	738		139 728	49.8
1 176	-424	752	-584	144 505	49.7
1 166	-433	733	-1 233	149 225	48.8
1 114	-1 055	59	-1 952	152 514	48.6
Gross debt – Networks consolidated line by line					
1 114	-1 055	59	-1 952	157 630	50.3
1 238	-1 106	132	-2 677	163 318	51.8
1 222	-1 147	75	-3 437	173 436	52.6
1 243	-1 196	47	-4 277	183 384	53.0
1 376	-1 243	133	-5 238	191 866	53.7
1 422	-1 287	135	-5 659	197 098	54.3

TABLE C.16

Net debt of the Québec government⁽¹⁾

	(millions \$)	(as a % of GDP)
Before government accounting reforms⁽²⁾		
1989-1990	34 583	22.9
1990-1991	37 558	24.1
1991-1992	41 885	26.5
1992-1993	46 914	29.1
1993-1994	51 837	31.4
1994-1995	57 677	33.1
1995-1996	61 624	34.0
1996-1997	64 833	35.1
After government accounting reform in 1997-1998⁽³⁾		
1997-1998	88 597	45.9
1998-1999	88 810	44.2
1999-2000	89 162	41.3
2000-2001	88 208	38.2
2001-2002	92 772	38.9
2002-2003	95 601	38.4
2003-2004	97 025	37.4
2004-2005	99 042	36.5
2005-2006	104 683	37.3
After government accounting reform in 2006-2007⁽⁴⁾		
2006-2007	124 297	42.7
2007-2008	124 681	40.8
2008-2009	134 237	42.8
With line-by-line consolidation of the networks⁽⁵⁾		
2009-2010	151 608	48.0
2010-2011	159 333	48.3
2011-2012	167 700	48.5
2012-2013	175 498	49.1
2013-2014	181 261	50.0

(1) For certain fiscal years, the data presented on the net debt are the data restated in the public accounts for the subsequent fiscal year because of accounting changes.

(2) Data for 1989-1990 to 1996-1997 are not comparable with those for 1997-1998 to 2013-2014.

(3) Data for 1997-1998 to 2005-2006 are not comparable with those for 1989-1990 to 1996-1997 and those for 2006-2007 to 2013-2014.

(4) Data for 2006-2007 to 2008-2009 are not comparable with those for previous years and those for 2009-2010 to 2013-2014.

(5) Data for 2009-2010 to 2013-2014 are not comparable with those for previous years.

TABLE C.17

Debt representing accumulated deficits

	Debt representing accumulated deficits for the purposes of the public accounts ^{(1),(2)}	
	(millions \$)	(as a % of GDP)
Before government accounting reforms⁽³⁾		
1989-1990	34 583	22.9
1990-1991	37 558	24.1
1991-1992	41 885	26.5
1992-1993	46 914	29.1
1993-1994	51 837	31.4
1994-1995	57 677	33.1
1995-1996	61 624	34.0
1996-1997	64 833	35.1
After government accounting reform in 1997-1998⁽⁴⁾		
1997-1998	82 581	42.8
1998-1999	82 577	41.1
1999-2000	82 469	38.2
2000-2001	81 042	35.1
2001-2002	84 538	35.5
2002-2003	85 885	34.5
2003-2004	86 290	33.2
2004-2005	87 224	32.1
2005-2006	91 699 ⁽⁵⁾	32.7
After government accounting reform in 2006-2007⁽⁶⁾		
2006-2007	96 124	33.1
2007-2008	94 824	31.0
2008-2009	103 000	32.8
2009-2010	109 125	34.6
2010-2011	111 946	34.0
2011-2012	115 220	33.3
2012-2013	118 106	33.0
2013-2014	119 889	33.0

(1) Before taking the stabilization reserve into account.

(2) For certain fiscal years, the data presented on the debt representing accumulated deficits are the data restated in the public accounts for the subsequent fiscal year because of accounting changes.

(3) Data for 1989-1990 to 1996-1997 are not comparable with those for 1997-1998 to 2013-2014.

(4) Data for 1997-1998 to 2005-2006 are not comparable with those for 1989-1990 to 1996-1997 and those for 2006-2007 to 2013-2014.

(5) The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.

(6) Data for 2006-2007 to 2013-2014 are not comparable with those for previous years.

Plus: balance of the stabilization reserve	Debt representing accumulated deficits after taking into account the stabilization reserve	
(millions \$)	(millions \$)	(as a % of GDP)
	34 583	22.9
	37 558	24.1
	41 885	26.5
	46 914	29.1
	51 837	31.4
	57 677	33.1
	61 624	34.0
	64 833	35.1
	82 581	42.8
	82 577	41.1
	82 469	38.2
950	81 992	35.6
	84 538	35.5
	85 885	34.5
	86 290	33.2
	87 224	32.1
	91 699 ⁽⁵⁾	32.7
1 300	97 424	33.5
2 301	97 125	31.8
433	103 433	33.0
	109 125	34.6
	111 946	34.0
	115 220	33.3
	118 106	33.0
	119 889	33.0

TABLE C.18

Change in debt service

General fund				
	Direct debt	Interest ascribed to the retirement plans⁽¹⁾	Employee future benefits⁽²⁾	Total
	(millions \$)	(millions \$)	(millions \$)	(millions \$)
Before government accounting reforms				
1989-1990	2 829	1 186		4 015
1990-1991	3 026	1 411		4 437
1991-1992	3 222	1 444		4 666
1992-1993	3 475	1 281		4 756
1993-1994	3 750	1 566		5 316
1994-1995	4 333	1 549		5 882
1995-1996	4 287	1 747		6 034
1996-1997	3 906	1 949		5 855
After government accounting reform in 1997-1998				
1997-1998	4 074	2 965		7 039
1998-1999	4 439	2 414		6 853
1999-2000	4 403	2 632		7 035
2000-2001	4 654	2 594		7 248
2001-2002	4 213	2 717		6 930
2002-2003	4 156	2 648		6 804
2003-2004	4 108	2 742		6 850
2004-2005	4 248	2 787		7 035
2005-2006	4 211	2 831		7 042
After government accounting reform in 2006-2007				
2006-2007	4 503	2 643	39	7 185
2007-2008	4 687	2 436	37	7 160
2008-2009	4 507	2 116	16	6 639
With line-by-line consolidation of the networks				
2009-2010	3 878	2 371	-9	6 240
2010-2011	4 429	2 662	-7	7 084
2011-2012	4 595	2 763	-10	7 348
2012-2013	4 770	3 007	-11	7 766
2013-2014	5 148	3 295	-9	8 434

(1) Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the Retirement Plans Sinking Fund and retirement plan assets.

(2) Employee future benefits correspond to interest on the accumulated sick leave obligation minus the investment income of the Accumulated Sick Leave Fund, and to the interest on the survivor's pension plan obligation minus the investment income of the Survivor's Pension Plan Fund.

	As a % of budgetary revenue	Consolidated entities	Total debt service	
		(millions \$)	(millions \$)	(as a % of consolidated revenue)
	12.9		4 015	12.9
	13.4		4 437	13.4
	13.5		4 666	13.5
	13.5		4 756	13.5
	14.8		5 316	14.8
	16.2		5 882	16.2
	15.8		6 034	15.8
	15.7		5 855	15.7
After government accounting reform in 1997-1998				
	19.5	303	7 342	16.6
	16.8	334	7 187	14.8
	17.0	338	7 373	14.9
	16.0	358	7 606	14.3
	15.6	331	7 261	13.8
	14.7	328	7 132	12.9
	14.2	391	7 241	12.6
	14.0	414	7 449	12.4
	13.4	517	7 559	11.9
After government accounting reform in 2006-2007				
	12.6	1 538	8 723	12.5
	12.0	1 592	8 752	12.0
	11.2	1 492	8 131	11.1
With line-by-line consolidation of the networks				
	10.5	1 604	7 844	10.0
	11.3	1 851	8 935	10.8
	11.2	2 103	9 451	10.9
	11.8	2 073	9 839	11.2
	12.1	2 164	10 598	11.4

