Finances Québec

INFORMATION BULLETIN

December 2, 2014 **2014-11**

FISCAL MEASURES ANNOUNCED IN THE UPDATE ON QUÉBEC’S ECONOMIC AND FINANCIAL SITUATION

This information bulletin is intended to make public the fiscal measures announced by the Minister of Finance in the Québec economic and financial update presented on December 2, 2014.

The full version of this bulletin is also reproduced in section G of the document entitled Update on Québec’s Economic and Financial Situation – Fall 2014, published on the same day.

For information concerning the matters dealt with in this information bulletin, contact the secteur du droit fiscal et des politiques locales et autochtones at 418 691-2236.

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FISCAL MEASURES ANNOUNCED IN THE UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION

1. Economic recovery measures

1.1 Reduction of the Health Services Fund contribution rate for SMEs in the primary and manufacturing sectors

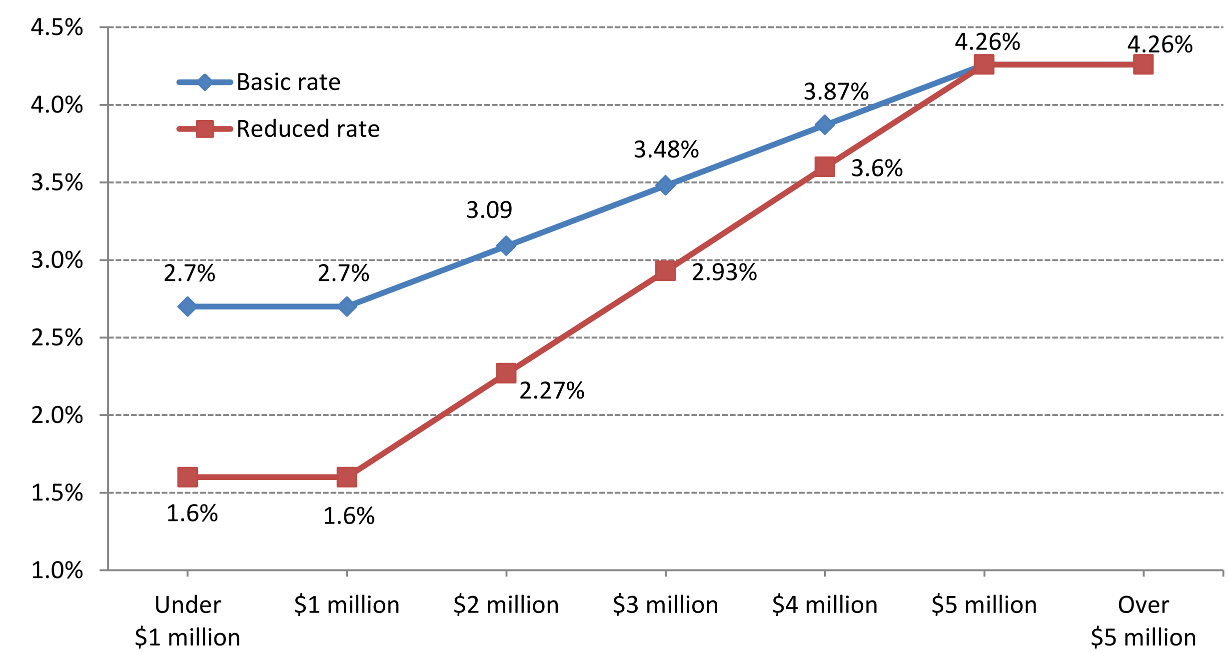
To assist small and medium-sized enterprises (SMEs) in sectors where competition is especially stiff, the Health Services Fund contribution rate for SMEs in the primary and manufacturing sectors will be reduced as of 2015.

Briefly, eligible employers whose total payroll is equal to or less than $1 million will see the applicable rate decrease from 2.7% to 1.6%. Eligible employers whose total payroll is between $1 million and $5 million will be subject to a rate ranging from 1.6% to 4.26%.

The chart below illustrates the reduction of the Health Services Fund contribution rate for SMEs in the primary and manufacturing sectors.

CHART 1

Illustration of the reduction of the Health Services Fund contribution rate for SMEs in the primary and manufacturing sectors



Under the *Act respecting the Régie de l'assurance maladie du Québec*,[1] 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.

1 CQLR, chapter R-5.

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 payroll[2] is less than $5 million.

Briefly, a specified employer for a year is an employer[3] 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 mandatary body of the State, the government of another province or the Government of Canada;

— a municipality or a mandatary body of a municipality;

— a municipal or public body performing a function of government or a mandatary body of such a body;

— a corporation, commission or association exempt from income tax under section 985 of the *Taxation Act*.[4]

The applicable rate for the purposes of calculating the contribution to the Health Services Fund payable by a specified employer is 2.7% if the employer's total payroll for the year is $1 million or less. That rate rises linearally to 4.26% for specified employers whose total payroll is between $1 million and $5 million.

The *Act respecting the Régie de l'assurance maladie du Québec* will be amended to provide for the application of a new rate scale, as of 2015, to SMEs in the primary and manufacturing sectors.

The new rate scale will apply to an employer that, for a particular 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 the North American Industry Classification System (NAICS),[5] such an employer being hereinafter called an "eligible specified employer."

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2 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.

3 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.

4 CQLR, chapter I-3.

5 The description of these codes is available on the Statistics Canada website: www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVDPage1&db=imdb&dis=2&adm=8&TVD=118464 (viewed on November 30, 2014).

More specifically, for the purposes of calculating the Health Services Fund contribution payable for a particular year by an eligible specified employer, the rate applicable to wages subject to the contribution for the year will correspond to one of the following rates:

— 1.6%, 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:

$$0.935\% + \frac{(0.665\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

Where the percentage rate determined by the above formula 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.

The table below shows all of the Health Services Fund contribution rates that will apply as of 2015.

TABLE 1

Health Services Fund contribution rates
(per cent)

Type of employer	Rate
Eligible specified employer whose total payroll is $1 million or less	1.6
Specified employer, other than an eligible specified employer, whose total payroll is $1 million or less	2.7
Eligible specified employer whose total payroll is over $1 million, but under $5 million	1.6 to 4.26
Specified employer, other than an eligible specified employer, whose total payroll is over $1 million, but under $5 million	2.7 to 4.26
All other employers	4.26

Moreover, to bolster Québec SMEs' capacity to innovate, while fostering the creation of specialized jobs, a temporary reduction in the contribution to the Health Services Fund was implemented in the budget speech of June 4, 2014 for full-time jobs created in the natural and applied sciences sector.[6]

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

6 Ministère des Finances du Québec, Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget, June 4, 2014, pp. 8-14.

Currently, to determine the amount of the reduction to which an 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 using a formula based on the employer's Health Services Fund contribution rate for the year must be used.

To take into account the decrease from 2.7% to 1.6% as of 2015 in the Health Services Fund contribution rate of 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 2014, the temporary reduction of the Health Services Fund contribution of an employer whose total payroll is $1 million or less, the rate of reduction will be equal to:

— 1.6%, in the case of eligible specified employers;

— 2.7%, in other cases.

1.2 Increase in the additional deduction for transportation costs of remote manufacturing SMEs

As part of the June 4, 2014 budget speech, an additional deduction for transportation costs of remote manufacturing small and medium-sized enterprises (SMEs)[7] was introduced.[8]

The additional deduction is intended to improve the competitiveness of remote manufacturing SMEs. These corporations may claim an additional deduction in the calculation of their net income to reflect the higher transportation costs attributable to the distance of certain regions from Québec's major urban centres.

Briefly, the amount of the additional deduction a corporation may claim for a taxation year depends on a number of parameters, that is, the region where it carries out its manufacturing activities, the level of its manufacturing activities, the size of the corporation, its gross income for the taxation year and the regional cap applicable to it.

The amount of the additional deduction for a taxation year may reach 6% of gross income for the taxation year.

To provide additional assistance to all manufacturing SMEs, certain parameters used to determine the amount of the additional deduction a corporation may claim will be reviewed, and the additional deduction will apply to all regions of Québec.

7 Canadian-controlled private corporations whose paid-up capital is less than $15 million.

8 MINISTÈRE DES FINANCES DU QUÉBEC, Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget, June 4, 2014, pp. 3-7.

As part of this increase, an integrity rule for sharing regional limits will be incorporated.

❑ Determination of the rate of the additional deduction

The rate of the additional deduction applicable to an eligible corporation for a taxation year depends, on the one hand, on the rate associated with the region in Québec where it carries out its manufacturing activities (the “base rate”) and, on the other, on the level of its manufacturing activities.

Consequently, the rate of the additional deduction is equal to the rate determined using the following formula:

$$\text{Rate allowed} = \text{Base rate} \times \frac{(\text{PMPA} - 25\%)^{9}}{25\%}$$

In this formula, PMPA stands for the proportion of activities attributable to manufacturing and processing activities.[10]

■ Increase in the rates applicable by region and addition of a fourth zone

The base rate applicable to a corporation for a taxation year depends on the region where its manufacturing activities are carried out.

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9 This ratio is limited to 1 so taht the rate allowed cannot exceed the base rate.

10 The notion of “proportion of manufacturing and processing activities” is the one used for the purposes of the reduction of the tax rate for manufacturing SMEs. For more information, see MINISTÈRE DES FINANCES DU QUÉBEC, Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget, June 4, 2014, pp. 1-3.

Currently, rates of 2%, 4% and 6% apply to the “intermediate zone,”[11] the “remote zone”[12] and the “special remote zone” respectively.[13]

The rate applicable to other regions, in Québec or elsewhere, is zero.

In general, the rate of the additional deduction applicable to a corporation for a taxation year is the one applicable to the zone in which the “manufacturing and processing capital cost” (MPCC) is the highest for the taxation year.

The aforementioned rates will therefore be raised by one percentage point, with the result that rates of 3%, 5% and 7% will apply to the “intermediate zone”, the “remote zone” and the “special remote zone” respectively, and a rate of 1% will apply to “central zones.”

■ Central zones

Central zones will consist of the Québec territories not included in the other three zones. Essentially, this means Gatineau and the Montréal and Québec census metropolitan areas.

■ Combination rule

Where the MPCC attributable to a zone with a higher base rate prevents a manufacturing SME from qualifying for the higher rate, the MPCC attributable to the zone may be combined with that of another zone with a lower base rate. The combination rule thus enables the manufacturing SME to enjoy a more advantageous base rate in certain cases.

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11 The intermediate zone consists of the territories included in the following administrative regions, regional county municipalities (RCMs), urban agglomerations or municipalities: Capitale-Nationale, except for the municipalities included in the Québec City metropolitan census region (MCR) and the Charlevoix-Est RCM; Chaudière-Appalaches, except for the municipalities included in the Québec City MCR; Lanaudière, except for the municipalities included in the Montréal MCR; Laurentides, except for the municipalities included in the Montréal MCR; Montérégie, except for the municipalities included in the Montréal MCR; Centre du Québec; the western portion of Estrie, including the Ville de Sherbrooke and the Memphrémagog, Val-Saint-François, des Sources and Coaticook RCMs; the southern portion of Mauricie, including the cities of Trois-Rivières and Shawinigan as well as the Chenaux and Maskinongé RCMs; Papineau RCM (Outaouais).

The list of municipalities included in the MCRs of Québec is given in: STATISTICS CANADA, Standard Geographical Classification (SGC), Volume 1, The Classification, 2011, no. 12-571-X in the catalogue, pp. 107-127. It can be viewed on Statistics Canada’s website, at www.statcan.gc.ca/pub/12-571-x/12-571-x2011001-eng.pdf.

12 The remote zone consists of the territories included in the following administrative regions, RCMs, urban agglomerations or municipalities: Bas-Saint-Laurent; Saguenay–Lac-Saint-Jean; Abitibi-Témiscamingue; Côte-Nord, except for the municipality of L’Île-d’Anticosti and the Golfe-du-Saint-Laurent RCM; Nord-du-Québec, excluding the Kativik Regional Government; Gaspésie, including the Avignon, Bonaventure, Côte-de-Gaspé, La Haute-Gaspésie and Rocher-Percé RCMs; the eastern portion of Estrie, including the Granit and Haut-Saint-François RCMs; Antoine-Labelle RCM (Laurentides); La Tuque urban agglomeration and Mékinac RCM (Mauricie); Pontiac and La Vallée-de-la-Gatineau RCMs (Outaouais); Charlevoix-Est RCM (Capitale-Nationale).

13 The special remote zone consists of the territories included in the following RCMs, urban agglomerations, municipalities or regional government: municipality of L’Île-d’Anticosti (Côte-Nord); Îles-de-la-Madeleine urban agglomeration; Golfe-du-Saint-Laurent RCM (Côte-Nord); Kativik Regional Government (Nord-du-Québec).

This principle will not be affected by the addition of a fourth zone.

Take the example of a manufacturing SME whose MPCC allocation among the various zones is 30% in the special remote zone (7% rate), 15% in the remote zone (5% rate), 10% in the intermediate zone (3% rate), 35% in the central zones (1% rate) and 10% outside Québec (0% rate).

Under the combination rule, this manufacturing SME can claim the base rate of 5% applicable to the remote zone, by adding the 30% MPCC allocation of the special remote zone with the 7% rate to the 15% allocation of the remote zone with the 5% rate. Under the combination rule, the remote zone becomes the zone in which the MPCC is the highest for the taxation year, with the combined rate of 45%.

■ Rate of the additional deduction depending on the level of manufacturing activities

The additional deduction rate applicable to a manufacturing SME for a particular taxation year varies depending on the level of the SME's manufacturing activities for the taxation year. The rules applicable in this respect will remain unchanged.

❑ Determination of the additional deduction cap

The amount of the additional deduction a corporation may claim for a taxation year is capped, on the one hand, according to its gross income for the taxation year and the regional limit applicable to it for the taxation year and, on the other, acording to the corporation's size.

■ Limit based on gross income and on the regional cap

The additional deduction is currently limited to a percentage of the manufacturing SME's gross income for the taxation year. At present, the percentage is the additional deduction rate applicable to the manufacturing SME for the taxation year.[14]

The additional deduction thus obtained is, however, subject to a regional cap for manufacturing SMEs with a base rate of 4% and 2%, that is, those that carry out the largest share of their manufacturing activities in the remote zone or the intermediate zone. These caps are $250 000 and $100 000 respectively.

The additional deduction will always be limited to a percentage of the manufacturing SME's gross income for the taxation year. This percentage will be the new additional deduction rate applicable to the manufacturing SME for the taxation year, that is, the new rates of 7%, 5%, 3% and 1%.

The additional deduction thus obtained will now be limited to a new regional cap for manufacturing SMEs with a base deduction rate of 5%, 3% and 1%, namely, those that carry out the largest share of their manufacturing activities in the remote zone, the intermediate zone or the central zones. These new caps will be $350 000, $150 000 and $50 000 respectively.

14 By applying thereto the reduction relating to a taxation year including June 4, 2014, if applicable.

When a manufacturing SME's taxation year has fewer than 365 days, the new caps of $350 000, $150 000 and $50 000 will be reduced in proportion to the number of days of the taxation year compared to 365.

For greater clarity, the rule that no regional cap applies to manufacturing SMEs that carry out the largest share of their manufacturing activities in the special remote zone will be maintained.

■ Reduction of the cap depending on the size of the corporation

The additional deduction calculated according to the rules set out above is reduced based on the corporation's size. The rules applicable in this respect will remain unchanged.

■ Sharing of regional caps between associated corporations

Under the existing rules, only the size of a group of associated corporations has an impact on the additional deduction a corporation may claim.

An additional rule will provide that corporations that are members of a group of associated corporations must share the use of the regional cap on a percentage basis.

Accordingly, corporations that are members of a group of corporations will be required to agree on a sharing arrangement based on the same rules that currently apply to the sharing of the $500 000-business limit enabling a corporation to obtain a lower tax rate.

Since the application of a regional cap to a corporation is determined at the level of the corporation, associated corporations may have different regional caps.

In this context, corporations that are members of a group of associated corporations will be required to share regional caps on a percentage basis. A rate of 0% will be allocated by default to a corporation to which the rate for a special remote zone applies, because no regional cap is applicable to such a corporation.

❑ Application date

These changes will apply to a manufacturing SME's taxation year that begins after December 31, 2014.

1.3 Increase from $800 000 to $1 million in the limited capital gains exemption on farm property and fishing property

An $800 000 lifetime capital gains exemption applies to gains realized on the disposition of qualified farm property. Only gains that exceed cumulative net investment losses sustained after 1987 give entitlement to the exemption.[15]

15 The $800 000 exemption that may be claimed by an individual is comprised of the former $100 000 exemption, the exemption for qualified farm property, the exemption for small business corporation shares and the exemption for qualified fishing property, as applicable.

Because of the 50% capital gains inclusion rate in the calculation of income, the resulting taxable capital gains exemption can be up to $400 000. For taxation years subsequent to 2014, the exemption must be indexed to inflation.

For the purposes of this measure, qualified farm property may be a share of the capital stock of a family farm corporation, an interest in a family farm partnership, or an immovable or incorporeal capital property used principally in the course of carrying on a business of farming in Canada.

The purpose of this measure is to encourage risk taking and investment in farming businesses, and to create a climate more conducive to helping these businesses raise capital. The measure is also intended to foster the emergence of new businesses and facilitate the expansion of small businesses, while acknowleging the special situation of farmers.

An $800 000 lifetime capital gains exemption also applies to gains realized on the disposition of qualified fishing property. In this case as well, only gains that exceed cumulative net investment losses sustained after 1987 give entitlement to the exemption.[16]

For the purposes of this measure, qualified fishing property may be incorporeal capital property, such as a fishing licence or a quota, an immovable or a fishing boat used principally in the course of carrying on a fishing business in Canada, shares of the capital stock of a family fishing corporation or an interest in a family fishing partnership.

The purpose of this measure is to encourage young people to choose the fishing industry, while acknowledging the special situation of fishers.

Since 2014, the capital gains exemption has applied not only to property used principally in the course of carrying on a farming or fishing business, but also to property used principally in the course of carrying on a combination of farming and fishing activities.

An $800 000 lifetime capital gains exemption also applies to gains realized on the disposition of qualified small business corporation shares. For taxation years subsequent to 2014, this exemption, too, must be indexed to inflation.

❑ Increase to $1 million

To further encourage risk taking and investment in farming or fishing businesses and to further encourage young people to choose these industries, while acknowledging the special situation of these two activity sectors, the $800 000 lifetime capital gains exemption applicable to gains on the disposition of qualified farm property or qualified fishing property or a combination of the two will be raised to $1 million.

16 See the preceding note.

■ Indexation of the exemption to inflation

The exemption's indexation to inflation, which will be applied for taxation years subsequent to 2014 to the three types of property that currently give rise to an $800 000 lifetime capital gains exemption, will be temporarily suspended in regard to farm and fishing property.

The amount of the exemption for such property will be maintained at $1 million until the lifetime capital gains exemption applicable to gains realized on the disposition of qualified small business corporation shares exceeds the $1 million amount. At that time, the same maximum lifetime capital gains exemption will once again apply to the three types of property.

❑ Application date

The increase to $1 million will apply to dispositions made subsequent to December 31, 2014. It will also apply to the inclusion, in a taxation year subsequent to 2014, of a capital gains reserve attributable to the disposition of farming and fishing property after the date of publication of this information bulletin.

1.4 Introduction of a temporary refundable tax credit for interest payable on financing obtained through La Financière agricole du Québec's seller-lender formula

La Financière agricole du Québec (FADQ) offers a program called the "seller-lender formula," intended to facilitate transfers of farming businesses.

Under the formula, a seller can lend to a buyer, with the FADQ guaranteeing the loan and the buyer receiving an advantageous interest rate.

To further facilitate transfers of farming businesses on a temporary basis, the refundable tax credit respecting the seller-lender formula will be introduced.

❑ Determination of the refundable tax credit

The refundable tax credit amount a taxpayer (corporation or individual) may claim for a taxation year with respect to interest will correspond to 40% of the interest payable by a buyer to a seller on a loan under the FADQ's seller-lender formula, and to 40% of the taxpayer's share of such interest payable by a partnership of which the taxpayer is a member.

Lastly, the interest must have been paid at time the taxpayer applies for the refundable tax credit.

❑ Application date

The refundable tax credit respecting the seller-lender formula will apply to interest attributable to a period beginning after December 31, 2014 and ending ten years after the conclusion of a financing agreement under the FADQ's seller-lender formula. In addition, interest will be payable relative to a financing agreement initially enter into under the FADQ's seller-lender formula after the date of publication of this information bulletin and before January 1, 2020.

1.5 Temporary increase of the refundable tax credit for Québec film and television production

In general, the refundable tax credit for Québec film and television production (the "basic tax credit") is equal to 36% or 28% of the qualified labour expenditure incurred by a qualified corporation to produce a Québec film. However, the labour expenditure giving rise to the tax credit may not exceed 50% of the film's production costs.

The 36% rate applies to the qualified 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 for giant-screen films, regardless of the language.

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

Lastly, certain increases are available to qualified corporations and are calculated on the qualified expenditure related to the carrying out of computer animation and special effects, on the qualified expenditure related to services provided in Québec, outside the Montréal area, or on the qualified labour expenditure respecting a production that does not receive financial assistance from a public body.

However, while waiting to receive payment of tax assistance, qualified corporations generally receive interim funding from the Société de développement des entreprises culturelles (SODEC) or a financial institution, occasioning additional costs for them.

Consequently, the tax legislation will be amended to take these additional costs into account in the calculation of the basic tax credit.

Accordingly, the basic tax credit, at the rate of 36% or 28%, will be calculated on an "increased expenditure" equal to the aggregate of the amount of the qualified labour expenditure and an amount equal to 2% of the amount of the qualified labour expenditure.

❑ Application date

These changes will apply regarding 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 publication of this information bulletin and before January 1, 2017.

2. Measures to achieve and maintain a balanced budget

2.1 Increase in the temporary contribution relative to the compensation tax for financial institutions

Originally, the compensation tax for financial institutions was based on three tax bases, namely, paid-up capital, amounts paid as wages, and payable or taxable insurance premiums, as applicable (including amounts established in respect of insurance funds).

Until December 31, 2012, the rates of compensation tax applicable to the various tax bases consisted, on the one hand, of the base rate reflecting the cost for the government of granting input tax refunds (ITRs) to suppliers of financial services in the Québec sales tax (QST) system and, on the other, of a temporary contribution announced in the March 30, 2010 budget speech and applicable to two of the three components of the compensation tax.[17]

On January 1, 2013, given the exemption of financial services in the QST system, the portion of the compensation tax for financial institutions that was attributable to the impact on public finances of granting ITRs to suppliers of financial services was eliminated.[18]

More specifically, since January 1, 2013, the compensation tax for financial institutions has not applied to paid-up capital and has consisted solely of the temporary contribution applicable to amounts paid as wages and to payable or taxable insurance premiums.

Thus, for the period from March 31, 2010 to December 31, 2012, the rates applicable to each tax base of the compensation tax for financial institutions were:

- for paid-up capital, 0.25%;
- for amounts paid as wages:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 3.9%, which consisted of a 2% base rate and a 1.9% temporary contribution,
  - in the case of a savings and credit union, 3.8%, which consisted of a 2.5% base rate and a 1.3% temporary contribution,

17 Ministère des Finances du Québec, Budget 2010-2011 – Additional Information on the Budgetary Measures, March 30, 2010, pp. A.102-A.104.

18 Ministère des Finances du Québec, Information Bulletin 2012-4, May 31, 2012, pp 12-14.

  - in the case of any other person,[19] 1.5%, which consisted of a 1% base rate and a 0.5% temporary contribution;

- for insurance premiums and amounts established in respect of an insurance fund, 0.55%, which consisted of a 35% base rate and a 0.2% temporary contribution.

Moreover, the November 20, 2012 budget speech annonced that the temporary contribution rates of 1.9%, 1.3%, 0.5% and 0.2% would be raised as of January 1, 2013 and that the application period that was initially to end on March 31, 2014 was extended to March 31, 2019.[20] Consequently, since January 1, 2013, the temporary contribution rates of financial institutions have been:

- for amounts paid as wages :
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 2.8%,
  - in the case of a savings and credit union, 2.2%,
  - in the case of any other person, 0.9%;
- for insurance premiums and amounts established in respect of an insurance fund, 0.3%.

❑ Increase in the temporary contribution rates

To ensure that a balanced budget is achieved and maintained, the temporary contribution rates will be increased for the period from the day following the day of publication of this information bulletin to March 31, 2017.

More specifically, the temporary contribution rates for that period will be:

- for amounts paid as wages:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 4.48%,
  - in the case of a savings and credit union, 3.52%,
  - in the case of any other person, 1.44%;
- for insurance premiums and amounts established in respect of an insurance fund, 0.48%.

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19 For the purposes of this measure, the phrase “any other person” excludes an insurance corporation and a professional association that has set up an insurance fund under section 86.1 of the *Professional Code* (CQLR, chapter C-26).

In addition, a financial institution that has not made the joint election provided for in section 150 of the *Excise Tax Act* (R.S.C. 1985, c. E-15) is no longer subject to the temporary contribution, as of January 1, 2013 (Ministère des Finances et de l’Économie du Québec, Information Bulletin 2013-7, July 11, 2013, pp. 12-13).

20 Ministère des Finances et de l’Économie du Québec, Budget 2013-2014 – Budget Plan, November 20, 2012, pp. H.43-H.46.

It is understood that the current temporary contribution rates—2.8%, 2.2%, 0.9% and 0.3%—will be reinstated with regard to their respective tax bases for the period from April 1, 2017 to March 31, 2019.

The following table shows the various rates of the compensation tax for financial institutions applicable according to the period concerned; the compensation tax has consisted solely of the temporary contribution since January 1, 2013.

TABLE 2

Rates of the compensation tax for financial institutions
(per cent)

	March 31, 2010 to December 31, 2012[(1)]	January 1, 2013 to the day of publication of this information bulletin	From the day of publication of this information bulletin to March 31, 2017	April 1, 2017 to March 31, 2019
Paid-up capital	0.25	n/a	n/a	n/a
Amounts paid as wages				
– Bank, loan corporation, trust corporation or corporation trading in securities	3.90	2.80	4.48	2.80
– Credit and savings union	3.80	2.20	3.52	2.20
– Any other person[(2)]	1.50	0.90	1.44	0.90
Insurance premiums and amounts established in respect of an insurance fund	0.55	0.30	0.48	0.30

(1) The tax payable on paid-up capital consisted solely of a base rate, while, in other cases, the temporary contribution rates of 1.9%, 1.3%, 0.5% and 0.2% were combined with the base rates of 2%, 2.5%, 1% and 0.35%.
(2) Excluding an insurance corporation and a professional association that has set up an insurance fund under section 86.1 of the *Professional Code*. In addition, a financial corporation that has not made the joint election provided for in section 150 of the *Excise Tax Act* is no longer subject to the temporary contribution, as of January 1, 2013.

❑ Application dates

Subject to the following clarifications:

— the increases in the temporary contribution rates will apply to a taxation year ending after the day of publication of this information bulletin and beginning before April 1, 2017;

— the existing temporary contribution rates will be reinstated with respect to a taxation year ending after March 31, 2017 and beginning before April 1, 2019.

- **Period from the day following the day of publication of this information bulletin to March 31, 2017**

Where the taxation year of a person that is a financial institution at a particular time in the year straddles the day of publication of this information bulletin, the following rules will apply:

- the rates applicable to amounts paid as wages will be:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 2.8% regarding amounts paid as wages during the portion or portions of the person's taxation year, preceding the day following publication of this information bulletin, during which it is a financial institution, and 4.48% regarding the amounts paid as wages during the portion or portions of the person's taxation year, following the day of publication of this information bulletin, during which it is a financial institution,
  - in the case of a savings and credit union, 2.2% regarding amounts paid as wages during the portion or portions of the person's taxation year, preceding the day following publication of this information bulletin, during which it is a financial institution, and 3.52% regarding amounts paid as wages during the portion or portions of the person's taxation year, following the day of publication of this information bulletin, during which it is a financial institution,
  - in the case of any other person, 0.9% regarding amounts paid as wages paid during the portion or portions of the person's taxation year, preceding the day following publication of this information bulletin, during which it is a financial institution, and 1.44% regarding amounts paid as wages during the portion or portions of the person's taxation year, following the day of publication of this information bulletin, during which it is a financial institution;
- the rate applicable to insurance premiums and amounts established in respect of insurance funds will correspond to the aggregate of 0.3%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year, preceding the day following the day of publication of this information bulletin, during which it is a financial institution by the number of days of its taxation year during which it is a financial institution, and 0.48%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year, following the day of publication of this information bulletin, during which it is a financial institution by the number of days of its taxation year during which it is a financial institution.

■ Period from April 1, 2017 to March 31, 2019

Where the taxation year of a person that is a financial institution at a particular time in the year straddles March 31, 2017, the following rules will apply:

- the rates applicable to amounts paid as wages will be:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 4.48% regarding amounts paid as wages during the portion or portions of the person's taxation year, preceding April 1, 2017, during which it is a financial institution, and 2.8% regarding amounts paid as wages during the portion or portions of the person's taxation year, following March 31, 2017, during which it is a financial institution,
  - in the case of a savings and credit union, 3.52% regarding amounts paid as wages during the portion or portions of the person's taxation year, preceding April 1, 2017, during which it is a financial institution, and 2.2% regarding amounts paid as wages during the portion or portions of the person's taxation year, following March 31, 2017, during which it is a financial institution,
  - in the case of any other person, 1.44% regarding amounts paid as wages during the portion or portions of the person's taxation year, preceding April 1, 2017, during which it is a financial institution, and 0.9% regarding amounts paid as wages during the portion or portions of the person's taxation year, following March 31, 2017, during which it is a financial institution;
- the rate applicable to insurance premiums and amounts established in respect of insurance funds will correspond to the aggregate of 0.48%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year, preceding April 1, 2017, during which it is a financial institution by the number of days of its taxation year during which it is a financial institution, and 0.3%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year, following March 31, 2017, during which it is a financial institution by the number of days of its taxation year during which it is a financial institution.

These rules will apply, with the necessary adaptations, for the calculation of the temporary contribution, where the taxation year of a person that is a financial institution at a particular time in the year straddles April 1, 2019.

❑ Instalment payments

The instalment payments of a corporation and the amounts payable each month by a financial institution that is not a corporation will have to be adjusted, as necessary, according to the usual rules, in order to take into account the changes to the temporary contribution rates.

2.2 Increase in the tax on capital for insurance corporations

In general, an insurance corporation[21] carrying on business in Québec is required to pay as tax on capital, for each period of 12 months, on every premium payable to the corporation or its agent with respect to its business in Québec other than an annuity contract, a tax equal:

— in the case of insurance relating to the life, health or physical well-being of the insured, to 2% of the premium payable;

— in all other cases, to 3% of the premium payable.

Moreover, an insurance corporation carrying on business in Québec is required to pay as tax on capital, for each taxation year, a tax equal to 2% on every taxable premium paid to the corporation or its agent in the year as part of an uninsured employee benefit plan respecting a person who is resident in Québec at the time of the payment.

An uninsured employee benefit plan means a plan which gives protection against a risk that could otherwise be obtained by taking out a policy of personal insurance, whether the benefits are partly insured or not.

To ensure a balanced budget is achieved and maintained, the 2% tax on capital rate that an insurance corporation is required to pay on every premium payable to the corporation or its agent relating to the life, health or physical well-being of the insured or that the insurance corporation is required to pay on a taxable premium paid to the corporation or its agent as part of an uninsured employee benefit plan will be raised to 3%.

The 3% rate will apply to a 12-month period or a taxation year, as applicable, ending after the day of publication of this information bulletin and, where the 12-month period or the taxation year straddles that day, the new rate will apply proportionately to the number of days in the 12-month period or taxation year following that day.

❑ Instalment payments

Instalment payments will have to be adjusted, as necessary, according to the usual rules, in order to take into account the increase in the rate of the tax on capital for insurance corporations.

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21 An insurance corporation means an insurer, within the meaning given to that expression by the *Act respecting insurance* (CQLR, chapter A-31), and includes any person, trust, association or group of persons administering an uninsured employee benefit plan or paying any amount into a fund of an uninsured employee benefit plan.

2.3 Changes to the refundable R&D tax credits and the tax credit for investments relating to manufacturing and processing equipment

The refundable tax credits for scientific research and experimental development (R&D) are tax incentive measures for businesses and represent the government's biggest tax expenditure.

Consequently, in this time of fiscal restraint, amendments will be made to the legislation to decrease the level of tax assistance for expenditures relating to R&D activities.

In addition, amendments will be made to the tax legislation to reduce the amount of tax assistance a qualified corporation may claim for the purposes of the tax credit for investments relating to manufacturing and processing equipment (the "tax credit for investments").

2.3.1 Standardization of the rate of the refundable R&D tax credits

A person who carries on a business in Canada and who undertakes R&D in Québec, or causes R&D to be undertaken in Québec on the person's behalf as part of a research contract, may claim various refundable tax credits.

The first refundable tax credit, commonly known as "R&D wages," applies to, among other things, the wages paid by a person to the person's employees, where the person carries out R&D work in Québec, or to one-half of the amount of the research contract, where the R&D work is awarded to a subcontractor dealing at arm's length with the person. The rate of this refundable tax credit is 14%, but it can vary from 14% to 30% in the case of a Canadian-controlled corporation.[22]

The second refundable tax credit, commonly known as "university R&D," applies to, among other things, 80% of the amount of a research contract, where the R&D work is subcontracted to an eligible university entity, an eligible public research centre or an eligible research consortium to which the person awarding the R&D subcontract is not related. The rate of this tax credit is 28%.

The third refundable tax credit concerns private partnership precompetitive research. This refundable tax credit applies to R&D work that a number of persons agree to undertake jointly in Québec or cause to have undertaken in Québec on their behalf under a research contract. The rate of this tax credit is 28%.

The fourth refundable tax credit concerns fees paid to an eligible research consortium. Essentially, this refundable tax credit applies to the fees a person pays to an eligible research consortium and that may reasonably be considered to relate to the R&D work done by the consortium in relation to a business of the person. The rate of this tax credit is 28%.

22 Briefly, this is a Canadian-controlled corporation with assets, taking into account the assets of associated corporations, of less than $75 million for the preceding fiscal period. More specifically, where the assets are $50 million or less, the rate is 30%, reducing linearly to 14% where the assets vary from $50 million to $75 million. The higher rate concerns only the first $3 million in eligible R&D expenditures.

The tax legislation will be amended to standardize the rates applicable to the refundable R&D tax credits. More specifically, the rates applicable to the refundable tax credit for R&D wages will be the only ones to apply from now on and will replace those of the other refundable R&D tax credits.

For greater clarity, only the rates will be adjusted. The $3-million limit applicable to the higher rate for a Canadian-controlled corporation will apply separately to each of the refundable R&D credits, and all of the conditions otherwise applicable to these tax credits will remain unchanged.

In the case of the refundable university R&D tax credit, this change will apply to R&D expenditures incurred after the day of publication of this information bulletin, relative to a research contract entered into after that day.

In the case of the refundable tax credit for private partnership precompetitive research, the change will apply to R&D expenditures incurred after the day of publication of this information bulletin relative to a partnership agreement reached after that day and to the renewal or extension of a partnership agreement after that day.

Lastly, in the case of the refundable tax credit for fees paid to an eligible research consortium, the change will apply to R&D expenditures incurred by a taxpayer[23] or partnership for a taxation year or fiscal period, as applicable, beginning after the day of publication of this information bulletin.

2.3.2 Introduction of an excluded expenditure amount for the purposes of the R&D tax credits

Given the current budgetary context, amendments will be made to the legislation to exclude, from tax assistance in the form of R&D tax credits, the first dollars spent annually by a taxpayer below an exclusion threshold.

❑ Subtraction of the expenditure amount below an exclusion threshold

A taxpayer or partnership will be required, for its taxation year or fiscal period, as applicable, to subtract the excluded expenditure amount from its expenditures that qualify as wages and consideration for the purposes of the R&D wages tax credit,[24] or that are qualified expenditures for the purposes of the university R&D tax credit,[25] eligible fees for the purposes of the tax credit for fees paid to an eligible research consortium[26] or qualified expenditures for private partnership precompetitive research[27] for the taxation year or fiscal period.

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23 The term “taxpayer” refers to a natural person, a trust or a corporation, as applicable, who would otherwise be eligible for the purposes of a R&D tax credit.

24 *Taxation Act* (CQLR, chapter I-3), s. 1029.7, third para. and s. 1029.8, third para.

25 *Taxation Act,* s. 1029.8.1, para. *d*.1.

26 *Taxation Act*, s. 1029.8.9.0.2, first para., definitions of the terms “eligible fee” and “eligible fee balance”. Expenditures representing an eligible fee balance for the purposes of this tax credit will also be contemplated.

27 *Taxation Act*, s. 1029.8.16.1.1, first para., definition of the term “qualified expenditure.”

A Canadian-controlled corporation's excluded expenditure amount for a taxation year will first reduce the portion of the corporation's expenditure amount giving entitlement to an R&D tax credit at a higher rate, taking into account the amendments to be made to the tax legislation with respect to the rates that will apply to the various R&D tax credits, as mentioned previously.

■ Excluded expenditures

The excluded expenditures of a taxpayer or partnership for a taxation year or fiscal period, as applicable, will mean the expenditures incurred in the year or period and that qualify as wages and consideration for the purposes of the R&D wages tax credit, or that are qualified expenditures for the purposes of the university R&D tax credit, eligible fees for the purposes of the tax credit for fees paid to an eligible research consortium or qualified expenditures for the tax credit for private partnership precompetitive research.

These expenditures will be referred to collectively herein as "excluded expenditures".

However, excluded expenditures will not include expenditures incurred after the day of publication of this information bulletin, relative to a research contract or partnership agreement entered into not later than that day.

■ Determination of the excluded expenditure amount

The excluded expenditure amount of a taxpayer or partnership for a taxation year or fiscal period, as applicable, will correspond to the lesser of the exclusion threshold applicable to the taxpayer or partnership for the taxation year or fiscal period and the total of excluded expenditures incurred in the year or period.

For greater clarity, all or part, as applicable, of the excluded expenditure amount of a taxpayer or partnership will be taken into account only once with respect to expenditures otherwise eligible for the purposes of an R&D tax credit of the taxpayer or partnership for a taxation year or fiscal period.

Moreover, where the total excluded expenditures of a taxpayer or partnership are higher than the exclusion threshold amount for a taxation year or fiscal period, as applicable, the portion of the exclusion threshold amount applicable to a particular R&D tax credit will correspond to the fraction obtained by dividing the expenditures otherwise eligible for the particular R&D tax credit by the total excluded expenditures.

■ Determination of the exclusion threshold amount

The exclusion threshold amount of a taxpayer or partnership for a taxation year or fiscal period, as applicable, will correspond to $50 000 annually, determined according to the usual rules.

However, the exclusion threshold amount of a taxpayer or partnership may reach $225 000 annually, where the taxpayer's or partnership's assets shown in the financial statements for the previous taxation year or fiscal period, as applicable, are over $50 million.

More specifically, the exclusion threshold amount will increase linearly to $225 000, where the assets vary between $50 million and $75 million, and will be $225 000, where the assets are $75 million or more.[28]

The table below illustrates the change in the exclusion threshold amount, based on different asset amounts.

TABLE 3

Change in the exclusion threshold amount

Assets (millions of dollars)	**Exclusion threshold amount**[(1)] (dollars)
50.0 or less	50 000
55.0	85 000
60.0	120 000
62.5	137 500
65.0	155 000
70.0	190 000
75.0 or over	225 000

(1) Threshold = $50 000 + [$175 000 x (assets – $50 million)/$25 million]. In this formula, the quotient (assets – $50 million)/$25 million may not be less than 0 or more than 1.

❑ Application date

These changes will apply to excluded expenditures incurred by a taxpayer or partnership for a taxation year or fiscal period, as applicable, beginning after the day of publication of this information bulletin, respecting R&D work carried out after that day.

2.3.3 Introduction of an excluded expense amount in respect of a qualified property for the purposes of the tax credit for investments

Briefly, a qualified corporation for a taxation year that acquires a qualified property may claim the tax credit for investments[29] for the eligible expenses it incurred.

28 A taxpayer's or partnership's assets will be calculated according to rules similar to those currently stipulated respecting the increase in the R&D wages tax credit for a Canadian-controlled corporation, without taking into account, however, the assets of any associated corporations (*Taxation Act*, s. 1029.7.2).

29 A qualified corporation that is a member of a qualified partnership that acquires a qualified property may claim the tax credit for investments in proportion to its share of the partnership's income or loss.

The base rate of the tax credit for investments is 4%. This rate can be increased to 32% in respect of a qualified property acquired for use primarily in a remote zone,[30] 24% in respect of a qualified property acquired for use primarily in the eastern portion of the Bas-Saint-Laurent administrative region[31] and 16% in respect of a qualified property acquired for use primarily in an intermediate zone.[32] The rate can be increased to 8% in other cases.

The tax credit for investments to which a qualified corporation is entitled for a taxation year may be deducted from its total taxes[33] 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.

So that a qualified corporation can take full advantage of a higher rate and the refundable nature of the tax credit for investments for a taxation year, its paid-up capital[34] for the previous taxation year must not exceed $250 million. The increase in the tax credit rate 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 claim only the 4% base rate, and no portion of the tax credit is refundable.

In addition, a qualified corporation may take advantage of a higher rate and the refundable nature 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.[35]

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

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

32 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.

33 *Taxation Act*, s. 1029.8.36.166.40.

34 Where the qualified corporation is a member of an associated group in the taxation year, the rate of the tax credit and its refundable nature 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).

35 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 refundable nature 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).

A qualified property, for the purposes of the tax credit for investments, is a property included in Class 29 of Schedule B to the *Regulation respecting the Taxation Act*,[36] Class 43 to the schedule, Class 50 or Class 52 to the schedule that is used primarily in the manufacturing or processing of goods for sale or lease, or property acquired after March 20, 2012 to be used primarily in the course of ore smelting, refining or hydrometallurgy activities, other than ore from a gold or silver mine, extracted from a mineral resource located in Canada. It must, in particular, have been acquired before January 1, 2018 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.

Like the refundable R&D tax credits, the tax legislation will be amended so that the first dollars of expenses eligible for the tax credit for investments incurred by a qualified corporation or qualified partnership in respect of a qualified property cannot give entitlement to the tax credit.

❑ Subtraction of the excluded expense amount relative to a qualified property for the purposes of determining the tax credit for investments

To determine its tax credit for investments relative to a qualified property for a taxation year, a qualified corporation must subtract its excluded expense amount in respect of the property for the taxation year from its eligible expenses in respect of the property for the taxation year.

The corporation's excluded expense amount in respect of a qualified property for the taxation year will first reduce the portion of its eligible expenses, in respect of the property, for which the higher rate of the tax credit for investments applies to the corporation for the taxation year. The balance of the excluded expense amount in respect of the property for the taxation year will reduce the portion of the corporation's eligible expenses, in respect of the property for the taxation year, for which the 4% base rate applies to the corporation.

Similarly, a qualified corporation that is a member of a quailfied partnership at the end of the partnership's fiscal period ending in a taxation year will be required, for the purposes of determining its tax credit for investments for the taxation year in respect of the qualified property of the partnership, to subtract its share of the excluded expense amount in respect of the property of the partnership for the fiscal period from its share of the partnership's eligible expenses in respect of the property for the fiscal period.

The corporation's share of the excluded expense amount in respect of a qualified property of the partnership for a fiscal period will first reduce the corporation's share of the portion of eligible expenses, in respect the property for the fiscal period, for which the higher rate of the tax credit for investments applies to the corporation for the taxation year in which the fiscal period ends. The balance of its share of the excluded expense amount in respect of the property for the fiscal period will reduce the corporation's share of the portion of eligible expenses, in respect of the property for the fiscal period, for which the 4% base rate applies to the corporation for the taxation year in which the fiscal period ends.

36 CQLR, chapter A-13.3, r. 1.

■ Determination of the excluded expense amount in respect of qualified property

The excluded expense amount in respect of a qualified property of a qualified corporation for a taxation year will be equal to the lesser of the following amounts:

— an amount corresponding to the corporation's eligible expenses in respect of the property for the taxation year;

— an amount corresponding to the amount by which the exclusion threshold in respect of the qualified property exceeds the total excluded expense amount in respect of the corporation's property for each previous taxation year.

The excluded expense amount in respect of a qualified property of a qualified partnership for a fiscal period will be equal to the lesser of the following amounts:

— an amount corresponding to the partnership's eligible expenses in respect of the property for the fiscal period;

— an amount corresponding to the amount by which the exclusion threshold in respect of the qualified property exceeds the total excluded expense amount in respect of the partnership's property for each previous fiscal period.

■ Exclusion threshold in respect of a qualified property

The exclusion threshold in respect of a qualified property will be $12 500.

However, if a qualified property is acquired as part of a joint venture, the exclusion threshold in respect of the qualified property that will apply to a corporation or partnership holding a share in the qualified property as part of the joint venture will correspond to the amount obtained by multiplying $12 500 by the proportion represented by the share of the corporation or partnership, as applicable, in the qualified property.

■ Impact of the excluded expense amount in respect of a qualified property in the calculation of the cumulative eligible expense limit

The subtraction of an excluded expense amount in respect of qualified property in the calculation of the tax credit for investments of a qualified corporation or a qualified corporation that is a member of a qualified partnership in respect of the property will not have an impact on the calculation of the cumulative eligible expense limit of the corporation, the partnership or a joint venture to which the corporation or partnership is a party.

❑ Application date

These changes will apply in respect of a qualified property acquired after the day of publication of this information bulletin.

However, the changes will not apply in respect of a qualified property acquired after that day if:

- the qualified property is acquired in accordance with a written obligation entered into not later than the day of publication of this information bulletin;
- the qualified property is a property whose construction by the qualified corporation, or by the qualified partnership, or on its behalf, was under way on the day of publication of this information bulletin.

2.4 Application of the general tax rate for insurance premiums to all automobile insurance premiums

The tax on insurance premiums, the general rate of which is 9%, applies to most amounts payable to obtain for oneself or another a benefit on the occurrence of a risk, including contributions payable to the Société de l'assurance automobile du Québec to fund the public automobile insurance plan applicable to bodily injury. However, on an exceptional basis, the 9% rate is reduced to 5% for premiums payable under an automobile insurance policy covering essentially material damage.

As part of the government's efforts to restore sound public finances with a view to achieving and maintaining a balanced budget, this reduction in the rate of the tax on insurance premiums will be abolished as of January 1, 2015. Accordingly, the 9% general rate will apply to all automobile insurance premiums paid after December 31, 2014.

To facilitate the transition for persons required to collect the tax who have a monthly reporting period, they will have until March 31, 2015 to remit to Revenu Québec the amounts of tax to be collected on automobile insurance premiums in January 2015. Persons who have a quarterly reporting period ending on January 31, 2015 will also have until March 31, 2015 to remit the amounts of tax to be collected on automobile insurance premiums paid during that reporting period.

2.5 Reduction of the rate of the tax credits for union, professional or other dues

An individual who pays eligible dues or an eligible contribution to a recognized professional association, a union or a similar group, depending on whether the individual is an employee or a self-employed worker, may generally claim a non-refundable tax credit equal to 20% of the total of the amounts thus paid that are related to, as applicable, the office or employment held by the individual or the business carried on by the individual.

Given the current budgetary context, the rate at which eligible dues or contributions are converted to a tax credit will be reduced from 20% to 10% as of the 2015 taxation year.

2.6 Tightening of the eligibility conditions for refundable tax credits to increase the incentive to work

To support and value work effort and encourage people to give up last resort financial assistance to enter the labour market, the tax system grants tax assistance to low-income households.

This tax assistance, in the form of a work premium, is adjusted depending on whether or not the household has a severely limited capacity for employment. In addition, a supplement for long-term recipients giving up last resort financial assistance or the Youth Alternative Program can be combined with it.

In general, the work premium is for any individual who is resident in Québec at the end of a year, provided the individual has recognized status (such as Canadian citizenship or permanent resident status) at that time and is a person of full age, an emancipated minor within the meaning of the *Civil Code of Québec*, the spouse of another individual, or the father or mother of a child with whom the individual resides.

However, where, at the end of a year, an individual was confined to a prison or a similar institution for one or more periods totalling more than six months during the year, the individual is not eligible for a work premium. The same applies to an individual in respect of whom another person received certain tax relief for the year, such as the transfer of the recognized parental contribution.

The maximum work premium is obtained by applying the rate determined on the basis of the composition of the household to the amount by which the lesser of the household's work income and the reduction threshold exceeds the excluded work income. However, so that the work premium targets only low-income households, it is reduced when a household's total income exceeds a certain threshold.

To encourage the work effort of low-income households and mitigate the impact of the social assistance trap, the federal tax system also grants a benefit, called the working income tax benefit. For Québec residents, this benefit was restructured to harmonize it with the work premium, in order to bolster Quebecers' incentive to work.

While the application details of the work premium and the working income tax benefit are identical in many respects, there is, apart from the age criterion,[37] a significant difference in eligibility for these measures in regard to students.

Since the introduction of the working income tax benefit, it has not been granted to full-time students enrolled at a designated educational institution for a period of more than 13 weeks, unless such a student has a minor child with whom the student resides at the end of the year.

37 As a rule, the working income tax benefit is not granted to individuals under 19 years of age, whereas the work premium can be granted to individuals who are 18 years of age.

To realign the work premium with its primary objectives, the tax legislation will be amended to provide that an individual who is a full-time student for a particular taxation year will no longer be considered an eligible individual for the purposes of the refundable tax credits to increase the incentive to work, unless, at the end of December 31 of that year or, as applicable, on the date of the individual's death, the individual is the father or the mother of a child with whom he or she lives.

An individual will be considered a full-time student for a particular taxation year if the individual began and completed in the year a term of study during which the individual was a full-time student enrolled in a recognized educational program at an educational institution designated by the Minister of Education, Recreation and Sports or the Minister of Higher Education, Research and Science for the purposes of the loans and bursaries program for full-time studies in vocational training at the secondary level and for full-time studies at the postsecondary level established under the *Act respecting financial assistance for education expenses*.[38]

To that end, a student will be deemed to be studying full time in a taxation year if the student has a major functional disability within the meaning of the *Regulation respecting financial assistance*[39] and, as a result, is studying part time during the taxation year.

Inaddition, a recognized educational program will be an educational program that provides that each student taking the program spend not less than 9 hours per week on courses or work in the program or, if the student is deemed to be studying full time, that the student receive a minimum of 20 hours of instruction per month, provided the program consists in:

— if the educational institution is situated in Québec, an educational program recognized by the Minister of Education, Recreation and Sports or the Minister of Higher Education, Research and Science for the purposes of the loans and bursaries program for full-time studies in vocational training at the secondary level and for full-time studies at the postsecondary level established under the *Act respecting financial assistance for education expenses*;

— if the educational institution is situated outside Québec, an educational program at the college level or at the university level or the equivalent.

These changes will apply as of the 2015 taxation year.

38 CQLR, chapter A-13.3.

39 CQLR, chapter A-13.3, r. 1.