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**ADDITIONAL
INFORMATION
2018-2019**

THE QUÉBEC
**ECONOMIC
PLAN**



Budget 2018-2019
Additional Information 2018-2019

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1. MEASURES RELATING TO THE QUÉBEC SALES TAX AND E-COMMERCE

Currently, there are no special rules under the Québec sales tax (QST) system for online transactions. That being so, the general rules under the system apply to e-commerce.

Consequently, as in the case of supplies made according to the traditional transactional model, supplies of movable property or services made over the Internet are generally subject to the QST if the property or services are supplied for consumption in Québec (destination principle), regardless of whether the supplier is located in Québec, elsewhere in Canada or outside Canada.

However, suppliers that make supplies of taxable movable property or services over the Internet in Québec are generally required to register for the QST, for the purpose of collecting the tax and remitting it to Revenu Québec, only if they have a physical presence (permanent establishment) or a significant presence (carrying on of a business) in Québec.

❑ Issues: suppliers that do not have a physical or significant presence in Québec

In 1992, when the QST system was introduced, Quebecers acquired movable property and services almost exclusively from suppliers that had a place of business in Québec. At that time, transactions involving suppliers with no physical or significant presence in Québec were quite rare.

Today, e-commerce is changing the way Quebecers acquire movable property and services. E-commerce enables them to acquire movable property and services from suppliers located outside Québec just as easily as if the suppliers were located in Québec.

The context of the digital economy therefore poses application-related difficulties respecting the collection of the QST by suppliers with no physical or significant presence in Québec.

These non-resident suppliers are not required to register for the QST, for the purpose of collecting the tax and remitting it to Revenu Québec, even when their supplies in Québec are taxable.

- In the case of incorporeal movable property and services, Québec consumers are therefore required to self-assess the QST payable, which is seldomly done.
- In the case of corporeal movable property from outside Canada, the QST is, in theory, collected by the Canada Border Services Agency. In practice, with the advent of e-commerce, there has been a considerable increase in the number of parcels going through customs clearance centres, and the QST is collected on only a fraction of the property thus brought into Québec.

- In the case of corporeal movable property from other Canadian jurisdictions, Québec consumers are required to self-assess the QST payable, since there is no customs examination respecting such property. However, this requirement is complied with as seldomly as in the case of incorporeal movable property and services.

Other consequences stem from these situations. First, since consumer self-assessment compliance is practically non-existent, the Québec government sustains substantial tax revenue losses. Second, since the QST is not paid by consumers, suppliers outside Québec have a competitive advantage over Québec businesses, given that the latter are generally required to collect and remit the QST on their supplies in Québec.

The Québec government recognizes the difficulties posed by the application of tax measures in the context of the digital economy, but considers that the status quo is no longer possible. The time has come to adapt the QST system to the realities of the 21st century.

❑ Implementation of a mandatory registration system for suppliers with no physical or significant presence in Québec

To ensure the QST is collected and remitted in the context of the digital economy, the Québec government is announcing the implementation of a new registration system under which:

- suppliers with no physical or significant presence in Québec will be required to collect and remit the QST on taxable incorporeal movable property and services they supply in Québec;
- suppliers with no physical or significant presence in Québec that are located in Canada will be required to collect and remit the QST on taxable corporeal movable property they supply in Québec.

To that end, the following recommendations made by the Organisation for Economic Co-operation and Development (OECD) as part of its work to address base erosion and profit shifting (BEPS), in a context of multijurisdictional transactions, were taken into consideration:

- require suppliers outside Canada to register for the value added tax (VAT) system of the jurisdiction of destination in which they supply property or services, and to collect the applicable tax and remit it to that jurisdiction;¹
- implement a simple, sufficiently clear and accessible system so that suppliers outside Canada can easily comply with their tax obligations.²

¹ OECD (2015), *Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, pp. 119-129.

² Ibid., pp. 126-129.

1.1 Mandatory registration

The QST system will be changed to require suppliers with no physical or significant presence in Québec (hereinafter, “non-resident suppliers”) to register with Revenu Québec, under a new specified registration system, for the purpose of collecting and remitting the QST applicable to their taxable supplies of incorporeal movable property and services made in Québec to specified Québec consumers.

Moreover, in the case of non-resident suppliers located in Canada, this registration requirement will also apply to the collection and remittance of the QST applicable to their taxable supplies of corporeal movable property made in Québec to specified Québec consumers.

For this mandatory registration measure to apply to a non-resident supplier, the value of the considerations for all taxable supplies made by the supplier in Québec to persons that may reasonably be considered consumers, as defined under the existing QST system, must exceed a threshold of \$30 000.

The new specified registration system will be designed to facilitate tax compliance by these non-resident suppliers, while ensuring the integrity of the existing system. To that end, the tax authorities will use all levers at their disposal to ensure compliance with the obligations of these suppliers and claim amounts owed by them. In that regard, the models of the other jurisdictions that have similar systems will be taken into consideration.

■ Digital property and services distribution platforms

The requirement to register under the new specified registration system will also apply to digital property and services distribution platforms (hereinafter, “digital platforms”) with respect to taxable supplies of incorporeal movable property or services received by specified Québec consumers, where these digital platforms control the key elements of transactions with specified Québec consumers, such as billing, transaction terms and conditions, and delivery terms.

In general, a digital platform will mean a platform that provides a service to non-resident suppliers, by means of e-communication (e.g. an application store or a website), enabling them to make taxable supplies of incorporeal movable property or services in Québec to specified Québec consumers.

If the digital platform supplies only a transport service (as in the case of digital platforms operated by Internet service providers and telecommunications companies), a service providing access to a payment system, or an advertising service that informs customers of various types of movable property or services offered by a non-resident supplier and links them to the supplier’s website, such a digital platform will not be considered to control the key elements of transactions. Consequently, this digital platform will not be subject to the new registration requirement for non-resident suppliers.

This mandatory registration measure will apply to digital platforms that control the key elements of transactions with specified Québec consumers, where the value of the considerations for all taxable supplies that a digital platform enables non-resident suppliers to make in Québec to persons that may reasonably be considered consumers, as defined under the existing QST system, exceeds a threshold of \$30 000.

For the purpose of calculating the \$30 000 threshold, the value of the considerations for a non-resident supplier's taxable supplies through a digital platform will not need to be taken into account in the calculation of the non-resident supplier's threshold, since it will be taken into account in the calculation of the digital platform's threshold.

However, if a non-resident supplier makes taxable supplies of incorporeal movable property or services in Québec to specified Québec consumers, through both a digital platform that controls the key elements of transactions and another means, the value of the considerations for supplies made by another means must be taken into account in the calculation of the non-resident supplier's \$30 000 threshold.

Digital platforms already registered under the general QST registration system will not need to be registered under the new specified registration system, but they will be required to collect and remit the QST applicable to taxable supplies of incorporeal movable property or services they enable non-resident suppliers to make to specified Québec consumers.

■ **Presumption of supply outside Québec**

The QST system provides for a presumption whereby a supply of movable property or services made in Québec by a person that is not resident in Québec is deemed to have been made outside Québec, except in certain situations.

Changes will be made so that this presumption does not apply to the following supplies:

- supplies of corporeal movable property made in Québec to specified Québec consumers by non-resident suppliers located in Canada and registered under the specified registration system;
- supplies of incorporeal movable property or services made in Québec to specified Québec consumers by non-resident suppliers registered under the specified registration system;
- supplies of incorporeal movable property or services made in Québec to specified Québec consumers by non-resident suppliers through a digital platform registered under the specified registration system or the general registration system.

Existing self-assessment rules under the QST system will continue to apply to taxable supplies that continue to be deemed to have been made outside Québec, such as supplies made by non-resident suppliers that are not required to register under the new specified registration system or by non-resident suppliers registered under the new system to persons who are not specified Québec consumers.

1.2 Applicable concepts

❑ Jurisdiction of consumption

■ OECD rules

The OECD states that, for the purposes of VAT, international trade in incorporeal movable property or services should be taxed in accordance with the rules in effect in the jurisdiction of consumption, that is, in accordance with the destination principle.³

To determine what the jurisdiction of consumption is in the case of cross-border transactions, the OECD clarified the criteria to be used for supplies physically performed in a specific place and remote supplies.

According to the destination principle, the specific jurisdiction in which supplies are physically performed⁴ is the jurisdiction that has the right to tax supplies of incorporeal movable property or services between businesses and final consumers.

Where the above rule does not apply, as in the case of remote supplies, the OECD recommends that the place of the consumer's usual residence be the determinative criterion for establishing the jurisdiction of consumption. This includes supplies of incorporeal movable property or services consumed after their physical performance and supplies of incorporeal movable property or services that can be remotely delivered.

■ Application of the OECD rules in Québec

Supplies of incorporeal movable property or services that are physically performed and consumed outside Québec must be subject to the tax applicable in the place where the property or services are received. Generally, this type of supply requires that the supplier and the recipient be located in the same jurisdiction. For example, this rule applies to the supply of a haircut outside Québec or the supply of an admission to a museum located outside Québec. Accordingly, these supplies are not subject to the QST, since they are made outside Québec.

Supplies of incorporeal movable property or services acquired remotely, such as the digital supply of software and the online supply of digital content (for example, music or movies), do not generally require that the supplier and the recipient be located in the same jurisdiction. Such supplies made in Québec by a non-resident supplier the value of whose considerations for taxable supplies exceeds a threshold of \$30 000 and whose recipient is a specified Québec consumer will require the non-resident supplier to register for the specified registration system for the purpose of collecting and remitting the applicable QST.

³ OECD (2017), *International VAT/GST Guidelines*, OECD Publishing, Paris, pp. 15-17.

⁴ According to the OECD, this category comprises supplies that are physically performed at a readily identifiable place and ordinarily consumed at the same time and place where they are physically performed. Moreover, these supplies usually require that both the supplier and the consumer be present at the same time and place where the physical performance occurred. OECD (2017), *International VAT/GST Guidelines*, OECD Publishing, Paris, pp. 67-70.

❑ Incorporeal movable property and services covered

The OECD advocates a broad approach to determining supplies of incorporeal movable property or services in respect of which non-resident suppliers are required to register in the jurisdiction in which they make the taxable supply of such property or services. Under this approach, all taxable supplies of incorporeal movable property or services made in a particular jurisdiction by suppliers that are not located in that jurisdiction are contemplated, regardless of whether the supplies are made in a digital context.

The Québec government considers the broad approach advocated by the OECD to be the approach best adapted to the QST system. It ensures greater neutrality in the application of the system, as the consumer's decision to acquire or not incorporeal movable property or a service in a digital context is not dictated by the application of the QST. In addition, the approach is consistent with the objective of simplification underpinning the implementation of a new mandatory registration system for non-resident suppliers.

Thus, in regard to the application of the specified registration system to non-resident suppliers, all taxable supplies of incorporeal movable property or services made by non-resident suppliers in Québec to specified Québec consumers will be covered.

❑ Specified registration system

The sole purpose of the specified registration system is to ensure that non-resident suppliers collect and remit the QST applicable to their taxable supplies made in Québec to specified Québec consumers.

Thus, non-resident suppliers registered under the new specified registration system will not be registrants within the meaning of the other provisions of the QST system.

For example, non-resident suppliers that register under the specified registration system will not be able to claim an input tax refund (ITR) in respect of property and services acquired in the course of their commercial activities.

Similarly, recipients registered under the general registration system who pay QST to a non-resident supplier registered under the specified registration system may not recover, by means of an ITR mechanism, the tax thus paid.

Accordingly, invoices from non-resident suppliers registered under the specified registration system will not be considered supporting documents with respect to ITR applications.

❑ Specified Québec consumer

For the purposes of the specified registration system, “specified Québec consumer” will mean a person who is not registered for the QST and whose usual place of residence is located in Québec.

This way of defining specified Québec consumers is intended to simplify the process for identifying them, to which non-resident suppliers will be subject, so as not to place too heavy an administrative burden on the suppliers.

A person's usual residence may be considered to be the place where the person regularly lives or the place where the person establishes the person's domicile. In contrast, a person's usual place of residence will not be in a jurisdiction where the person momentarily spends time, such as when the person is on a trip.

The information enabling non-resident suppliers to validate a person's usual place of residence must be available, and non-resident suppliers must be reasonably able to obtain it in the normal course of their operations.

Thus, to validate a person's usual place of residence, non-resident suppliers will be required to obtain two, non-contradictory pieces of information, such as the person's billing address or personal address, the IP address of the device used or another method of geolocation, payment-related bank information or the billing address used by the bank, information from a SIM (Subscriber Identity Module) card, the place of the person's landline, or any other relevant information.

If, in special circumstances, two, non-contradictory elements of information cannot be obtained because of a non-resident supplier's business practices, Revenu Québec may allow an alternative method to be used.

❑ \$30 000 threshold

As previously mentioned, a non-resident supplier's \$30 000 threshold is based on the value of the considerations for all taxable supplies made by the supplier in Québec to persons that may reasonably be considered consumers.

To calculate this threshold on a particular date when the new specified registration system is applicable, the value of the considerations for all taxable supplies thus made in Québec during the 12-month period proceeding the month that includes the particular date must be taken into account by the non-resident supplier.

For greater clarity, the value of the considerations for supplies deemed to be made outside Québec by a non-resident supplier will be included in the calculation of the \$30 000.

❑ Clarification concerning digital platforms

The concepts presented in this subsection will also apply to situations involving digital platforms subject to the requirement to register under the new specified registration system, with the necessary adaptations.

1.3 Other measures

❑ Tax paid in error

A person who is registered under the general registration system and who pays the QST in error to a non-resident supplier registered under the specified registration system must go through the non-resident supplier to obtain a rebate of the QST paid by mistake.

However, if the person is a specified Québec consumer, the person may apply for a rebate either through the non-resident supplier registered under the specified registration system or from Revenu Québec, in accordance with the QST system rules applicable to this situation.

❑ Election to register under the specified registration system or the general registration system

Non-resident suppliers required to register under the new specified registration system may elect instead to register under the general registration system, if they meet the optional registration requirements currently provided for under the QST system.

Moreover, in keeping with the principle of harmonization with the goods and services tax and the harmonized sales tax (GST/HST), whereby a person registered for the QST system must necessarily be registered for the GST/HST system, non-resident suppliers that wish to register under the general QST system will be required to register under the general GST/HST system.

In addition, such non-resident suppliers will be able to register under the general QST system, provided they furnish and maintain security of a value and in a form that are satisfactory to the Minister of Revenue.

❑ Introduction of a mechanism to verify the identification number of non-resident suppliers

To counteract possible abuse, Revenu Québec will make information available to Quebecers that will enable them to verify whether non-resident suppliers are registered under the specified registration system.

❑ Penalties

■ Specified Québec consumer

To safeguard the integrity of the QST system, the tax legislation will be amended to incorporate a new penalty for recipients of movable property or services supplied by a non-resident supplier registered under the specified registration system who give the supplier a QST registration number erroneously or false information on their usual residence, in an effort to avoid paying the applicable QST to the non-resident supplier.

Accordingly, recipients who claim not to be specified Québec consumers by providing false information to avoid paying the QST will be liable to a penalty for each transaction in respect of which such information is provided.

The penalty will be equal to or greater than \$100 or 50% of the QST payable on the transaction in respect of which a recipient avoided or attempted to avoid paying the QST.

To ensure the accuracy of information provided by specified Québec consumers, Revenu Québec will collect information from non-resident suppliers registered under the specified registration system.

■ **Non-resident supplier**

At the time similar tax legislation was introduced in other jurisdictions, major international suppliers, which accounted for the majority of non-resident suppliers of incorporeal movable property or services, demonstrated a willingness to comply.

The government therefore expects these major international suppliers to also comply with their obligation to register under the new specified registration system.

During the 12-month period following the date of application of this new system, Revenu Québec will adopt a practical approach to compliance. Thus, where non-resident suppliers show that they have taken reasonable measures to meet their new obligations, for example by making changes to their systems, and they are still unable to meet these obligations, Revenu Québec will assist them and no penalty will be imposed.

After this 12-month period, the penalties provided for in the existing tax legislation will be imposed on non-resident suppliers that have not complied with the new obligations.

□ **Characteristics of the specified registration system**

The OECD recommends that, to implement a mandatory registration system in a jurisdiction for suppliers not resident in that jurisdiction, required registration information should be limited to what is strictly necessary and registration should be possible online, on the tax administration's website.⁵

Québec's specified registration system will be sufficiently clear and accessible for non-resident suppliers to be able to readily comply with their tax obligations.

The system will also provide information on how the QST system works, so that non-resident suppliers know how the QST applies to the supplies they make and can better meet their requirement to register to collect and remit the tax.

■ **Implementation of an online service for the specified registration system**

The specified registration system will be supported by a new Revenu Québec online service. The simplicity of this registration system will be a major incentive to non-resident suppliers to identify themselves to Revenu Québec.

The specified registration system will be an online process, and QST returns will be filed electronically, necessitating a minimal exchange of physical documents.

The information will be available in French and English.

■ **Reporting period**

The reporting period of non-resident suppliers registered under the specified registration system for the remittance of the QST collected on their supplies will be established on the basis of calendar quarters. The return for a particular reporting period must be filed in the month following the end of reporting period.

⁵ See note 1, pp. 126-129.

■ Remittances

For simplification purposes, and to lower the administrative costs of both non-resident suppliers registered under the specified registration system and the tax authorities, Revenu Québec's new online service will allow for electronic payment of the QST collected by such suppliers.

A list of the exchange rates of the main business partners will be available through the online service used by non-resident suppliers to make their remittances.

However, changes will be made to the QST system to allow non-resident suppliers registered under the specified registration system to pay the QST collected in a currency other than the Canadian dollar. The Minister of Revenue may eventually prescribe certain currencies for the purpose of remitting the tax.

■ Records and supporting documents

Under the existing tax legislation, persons registered for the QST must keep records, and supporting documents relative to the information contained in them, for six years after the last year to which they apply.

The tax legislation will be amended so that the same obligations regarding records and supporting documents also apply to non-resident suppliers registered under the specified registration system.

□ Clarification respecting digital platforms

The measures provided for in this subsection, except the measure relating to the registration election, will also apply to situations involving digital platforms subject to the requirement to register under the newspecified registration system, with the necessary adaptations.

1.4 Application dates

The measures stemming from the implementation of the new specified registration system will apply as of:

- January 1, 2019, in the case of non-resident suppliers outside Canada, and in the case of digital platforms enabling such suppliers to make taxable supplies of incorporeal movable property or services in Québec to specified Québec consumers;
- September 1, 2019, in the case of non-resident suppliers located in Canada, and in the case of digital platforms enabling such suppliers to make taxable supplies of incorporeal movable property or services in Québec to specified Québec consumers.

2. MEASURES CONCERNING INDIVIDUALS

2.1 Introduction of a first-time home buyers' tax credit

The purchase of a house is often the biggest expense a person will have in their lifetime. The costs associated with buying a house include, apart from the purchase price of the property, certain incidental expenses such as inspection fees, notary fees and duties on the transfer of an immovable. First-time home buyers use up a large part, if not all, of their savings to make their down payment. In a context in which young households generally have less cash at their disposal, incidental costs tied to the purchase of a first home can be a significant constraint.

To facilitate access to home ownership by offering tax relief to persons who purchase their first principal residence or who, because of a severe disability, need to find a more accessible home, a new non-refundable first-time home buyers' tax credit will be introduced. This new tax credit will be available as of the 2018 taxation year.

☐ Qualifying home

A qualifying home in respect of an individual will be a housing unit⁶ located in Québec that is acquired at a particular time after December 31, 2017 by:

- the individual or the individual's spouse, where the individual intends to inhabit the home as a principal place of residence not later than one year after the particular time and it is the individual's first housing unit;
- the individual, where the individual intends that the home be inhabited by a specified disabled person, in respect of the individual, as a principal place of residence not later than one year after the particular time, and the purpose of the acquisition of the housing unit by the individual is to enable the specified disabled person to live in:
 - a home that is more accessible by the specified disabled person or in which the specified disabled person is more mobile or functional, or
 - an environment better suited to the specified disabled person's personal needs and care.

An individual will be considered to have acquired a qualifying home the first day on which the individual's right in the housing unit is published in the land register and the housing unit is habitable.⁷

⁶ A housing unit will include an individual house that is detached, semi-detached or a row house, a manufactured home or mobile home, an apartment in an immovable under divided co-ownership (condominium) and an apartment in a multiple-unit residential complex.

⁷ For example, where an individual acquires ownership of land to build a house on it as part of a self-help housing project, the individual will be considered to have acquired the housing unit the first day on which the house is habitable.

In addition, a qualifying home may consist of, if the other conditions are otherwise met, a share of the capital stock of a housing cooperative, the holder of which is entitled to possession of a housing unit located in Québec. In such a case, the reference to a housing unit for the purposes of the tax credit will mean the housing unit in relation to which the right of the individual or the individual's spouse was published in the land register.⁸

■ **First housing unit of an individual**

A housing unit will be a first housing unit of an individual if the following conditions are met:

- the individual did not own, whether alone or jointly, a housing unit that was occupied by the individual in the period (hereinafter, "particular period") that began at the beginning of the fourth preceding calendar year that ended before the acquisition of the housing unit and that ended on the day before the acquisition of the housing unit;
- the individual's spouse did not own, whether alone or jointly, in the particular period a housing unit inhabited by the individual during their marriage.⁹

■ **Specified disabled person**

A specified disabled person, in respect of an individual, at a particular time will mean:

- a person who is the individual or who is related¹⁰ to the individual at the particular time; and
- a person who is eligible for the tax credit for a severe and prolonged impairment in mental or physical functions for the taxation year that includes the particular time, or who would have been eligible for the tax credit if no individual had included, in the calculation of the non-refundable tax credit for medical expenses for the year, an amount in respect of remuneration for an attendant or care in a nursing home in respect of the person, or a person in respect of whom the supplement for handicapped children is paid for the month that includes the particular time.

□ **Calculation of the tax credit**

An individual, other than a trust, who is resident in Québec at the end of a taxation year—or, if the individual dies in the year, on the date of the individual's death—may deduct, in the calculation of the individual's tax otherwise payable for the year, where a qualifying home in respect of the individual is acquired in the year, the product obtained by multiplying \$5 000 by the rate applicable to the first taxable income bracket of the personal income tax table for the year, which is currently 15%.

⁸ Such as a right of usufruct.

⁹ As broadly defined in the tax legislation, including a civil union and, as a rule, a de facto union.

¹⁰ Pursuant to the tax legislation, related persons or persons related to each other are individuals connected by blood relationship, marriage or adoption.

Thus, the maximum value of the tax credit will be \$750.

If, for a taxation year, more than one individual may claim the first-time home buyers' tax credit in respect of a qualifying home, the total of the amounts that each of these individuals may claim, in the calculation of the tax otherwise payable by each of them for the year, may not exceed the amount that would be allowed if only one of them were eligible the tax credit for the year.

Failing agreement between these individuals, the Minister of Revenue will determine the amount that each of them may claim for the year.

☐ **Unused portion of the tax credit by a spouse**

An individual's unused portion of the first-time home buyers' tax credit will not be transferable to the individual's spouse under the mechanism for transferring the unused portion of certain non-refundable tax credits to the spouse.

☐ **Clarification concerning the transfer to parents or grandparents of the unused portion of the tax credit for tuition fees and examination fees**

Under the tax system, a non-refundable tax credit is granted in respect of tuition fees and examination fees paid by an individual to pursue studies.

Tuition and examination fees eligible for the tax credit are essentially tuition fees paid to a recognized educational institution and examination fees relating to an examination required to obtain a recognized professional status, or a licence or certification needed to practise a trade.

Where a student's income is not high enough for the student to claim the full amount of the tax credit for tuition fees and examination fees, the unused portion of the tax credit may be applied to reduce the student's tax payable for a subsequent year, or transferred to one of the following people: the student's father, mother, grandfather, grandmother or their respective spouses.

The tax legislation will be amended to stipulate that the new first-time home buyers' tax credit must be taken into account in determining the unused portion of the tax credit for tuition fees and examination fees that may be transferred by a person to an individual for a taxation year.

☐ **Ordering of the tax credits**

The tax legislation provides for the order in which non-refundable tax credits must be applied to give priority to tax credits for which no carry-over or transfer is possible, except under the mechanism for transferring the unused portion of certain non-refundable tax credits to the spouse.

Given that the unused portion of the first-time home buyers' tax credit may not be carried over or transferred to the spouse, the tax legislation will be amended so that the tax credit comes into play after the basic tax credit, the personal tax credits, the tax credit attributable to the transfer of the recognized parental contribution, the tax credit for persons living alone, in respect of age and for retirement income, the tax credit for experienced workers and the tax credit for union or professional dues have been taken into account in the calculation of an individual's tax otherwise payable for a taxation year.

❑ Individual resident in Canada for part of a year

Where an individual was resident in Canada for only part of a particular taxation year, the amount the individual may deduct, in the calculation of the individual's tax otherwise payable for the year, for the purposes of the first-time home buyers' tax credit, must be determined as if the period in the year throughout which the individual was resident in Canada was a taxation year.¹¹

However, the amount the individual may deduct for the year may not exceed the amount that would have been deductible on this account had the individual been resident in Canada throughout the year.

❑ Terms of application 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 taxation year extends 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).

For greater clarity, where an individual's bankruptcy occurs during a calendar year, the individual may claim the first-time home buyers' tax credit for the taxation year—pre-bankruptcy or post-bankruptcy—during which the qualifying home was acquired. However, the amount the individual may deduct on account of the tax credit must not exceed the amount that would have been deductible had the individual not become bankrupt during the calendar year.

Moreover, the tax legislation provides that a trustee must, for each year during which an individual is in bankruptcy, file a tax return relating to the income from transactions of the bankruptcy. However, certain deductions may not be claimed by the trustee, in particular in the calculation of the tax payable by the individual for the year. The tax legislation will be amended to provide that a trustee may not claim, in the calculation of the tax payable for a year during which the individual is in bankruptcy, an amount on account of the new first-time home buyers' tax credit.

¹¹ Thus, if the individual was resident in Québec on the last day the individual was resident in Canada and a qualifying home in respect of the individual was acquired in that period, the individual may claim the tax credit.

❑ **Determination of alternative minimum tax**

The alternative minimum tax applicable to an individual for a taxation year is equal to the amount by which an amount representing 15% of the portion of the individual's adjusted taxable income in excess of \$40 000 exceeds the individual's basic minimum tax deduction.

The amount an individual may deduct in the calculation of the individual's tax otherwise payable for a particular taxation year on account of the first-time home buyers' tax credit may also be taken into account in the determination of the amount of the individual's basic minimum tax deduction for the particular year.¹²

2.2 New extension, to March 31, 2019, of the eligibility period for the RénoVert tax credit

To stimulate the economy by supporting employment in the home renovation sector and promote sustainable development, a refundable tax credit for eco-friendly home renovation, the RénoVert tax credit, was introduced on a temporary basis following the tabling of the March 2016 Québec Economic Plan. To claim the tax credit, a renovation agreement had to be entered into with a qualified contractor after March 17, 2016 but before April 1, 2017, among other requirements. Further to the one-year extension of the tax credit, announced when the March 2017 Québec Economic Plan was tabled, the deadline for entering into such an agreement was postponed to March 31, 2018.

Capped at \$10 000 per eligible dwelling, financial assistance under the RénoVert tax credit corresponds to 20% of the portion, in excess of \$2 500, of qualified expenditures paid by an individual, after March 17, 2016 and before January 1, 2019, to have a qualified contractor carry out recognized eco-friendly renovation work on the individual's principal place of residence or on a cottage suitable for year-round occupancy that is normally occupied by the individual.

Financial assistance under this tax credit may be combined, depending on the nature of the work, with that offered for energy-efficient home renovations under the Rénoclimat program,¹³ administered by the Ministère de l'Énergie et des Ressources naturelles.

Recognized eco-friendly renovation work for the purposes of the RénoVert tax credit consists mostly of measures to decarbonize the residential sector. Briefly, such work pertains to insulation, sealing, installation of ENERGY STAR qualified doors or windows, and heating, air conditioning, water heating and ventilation systems, as well as to water and soil quality, provided the work has a positive energy or environmental impact and meets the attendant standards.

¹² This deduction allows an individual to take into account, in the calculation of alternative minimum tax, certain non-refundable tax credits claimed in the basic tax system.

¹³ The normative framework of this program is available at www.transitionenergetique.gouv.qc.ca/en/my-home/renoclimat/.

However, only expenditures attributable to the carrying out of recognized eco-friendly renovation work stipulated in an agreement entered into after March 17, 2016 and before April 1, 2018 with a qualified contractor having an establishment in Québec may be included in the calculation of qualified expenditures under the RénoVert tax credit.

To spur more households to adopt eco-friendly behaviour in their home renovation projects, and to encourage households whose qualified expenditures have not yet reached \$52 500 to undertake other eco-friendly renovation work, the period during which a renovation agreement may be entered into with a qualified contractor for the purposes of the RénoVert tax credit will again be extended by one year, to March 31, 2019.

Renovation agreements entered into after March 31, 2018 and before April 1, 2019 may relate to all eco-friendly renovation work currently recognized for the purposes of the RénoVert tax credit, with the exception of the construction, renovation, modification or rebuilding of a system for the discharge, collection and disposal of waste water, toilet effluents or grey water.¹⁴

Since, in respect of a particular eligible dwelling, the RénoVert tax credit will pertain to expenditures attributable to the carrying out of eco-friendly renovation work stipulated in an agreement entered into after March 17, 2016 and before April 1, 2019, amendments will be made to the tax legislation to specify the terms and conditions of the tax credit regarding expenditures paid after December 31, 2017.

More specifically, an individual who is resident in Québec at the end of December 31 of a particular taxation year¹⁵ that is the 2018 taxation year or the 2019 taxation year may claim, for that year, the Rénovert tax credit in relation to a particular eligible dwelling owned by the individual, in an amount equal to:

- where the particular taxation year is the 2018 taxation year, the lesser of the following amounts :
 - 20% of the amount by which the individual's qualified expenditure for the year in relation to the eligible dwelling exceeds the amount by which \$2 500 exceeds the aggregate of the amounts each of which is the individual's qualified expenditure in relation to the eligible dwelling for the 2016 and 2017 taxation years,
 - the amount by which \$10 000 exceeds the aggregate of the amounts each of which is an amount that, in relation to the eligible dwelling, was obtained on account of the RénoVert tax credit for the 2016 and 2017 taxation years by the individual or by any other person with whom the individual owned the dwelling;

¹⁴ Since April 1, 2017, this work has qualified for the temporary refundable tax credit for the upgrading of residential waste water treatment systems. Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2017-2018*, March 28, 2017, pp. A.17-A.22.

¹⁵ For greater clarity, an individual who dies or ceases to be resident in Canada in a particular taxation year will be deemed to be resident in Québec at the end of December 31 of that year, if the individual was resident in Québec immediately before dying or on the last day the individual was resident in Canada, as the case may be.

- where the particular taxation year is the 2019 taxation year, the lesser of the following amounts:
 - 20% of the amount by which the individual's qualified expenditure for the year in relation to the eligible dwelling exceeds the amount by which \$2 500 exceeds the aggregate of the amounts each of which is the individual's qualified expenditure in relation to the eligible dwelling for the 2016, 2017 and 2018 taxation years,
 - the amount by which \$10 000 exceeds the aggregate of the amounts each of which is an amount that, in relation to the eligible dwelling, was obtained on account of the RénoVert tax credit for the 2016, 2017 and 2018 taxation years by the individual or by any other person with whom the individual owned the dwelling.

Where more than one individual is entitled to the RénoVert tax credit for work carried out in respect of the same eligible dwelling jointly owned by the individuals, the total of the amounts indicated by each of them in their tax return must not exceed the amount that would have been allowed if, in the case where the individuals became owners of the eligible dwelling at the same time, only one of them had been eligible for the tax credit for the year and if, in any other case, only the individual with the older title of ownership, or one such individual if many of them hold such a title, had been eligible for the tax credit for the year. Failing agreement between the individuals, the Minister of Revenue will determine the amount that each of them may claim.

For the purpose of calculating the tax credit, an individual's qualified expenditure for a particular taxation year in relation to a particular eligible dwelling of the individual will be equal to the aggregate of the amounts each of which is an expenditure, other than an excluded expenditure, that is attributable to the carrying out of recognized eco-friendly renovation work provided for in a renovation agreement in relation to the dwelling and that is paid, in relation to the eligible dwelling, by the individual or the individual's legal representative, or by a person who is the individual's spouse at the time the payment is made, or by any other individual who, at the time the expenditure is incurred, owns the eligible dwelling, in one of the following periods:

- after March 17, 2016 and before January 1, 2017, where the particular year is the 2016 taxation year;
- after December 31, 2016 and before January 1, 2018, where the particular year is the 2017 taxation year;
- after December 31, 2017 and before January 1, 2019, where the particular year is the 2018 taxation year;
- after December 31, 2018 and before January 1, 2020, where the particular year is the 2019 taxation year.

For greater clarity, the other terms and conditions of the RénoVert tax credit will remain unchanged.

2.3 Greater access to the 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 concept of family income—an individual's income and, as the case may be, the income of the individual's spouse—is often used, since the concept provides a good picture of a household's earned income in a year.

However, an increase in family income due, for example, to greater participation in the labour market could lead to a reduction, or even the loss, of their tax benefits.

Thus, to render work effort more appealing, it was announced as part of Budget Speech 2015-2016 that a new refundable tax credit (hereinafter, "tax shield") would be implemented as of the 2016 taxation year.¹⁶

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 to incentivize work, namely, the refundable tax credit granting a work premium—the general work premium, or the adapted work premium for persons whose capacity for employment is severely limited—and the refundable tax credit for childcare expenses.

For the purposes of the tax shield, the maximum increase in eligible work income relative to the previous year that may be taken into account for each member of a household is currently set at \$3 000.¹⁷

To enhance the benefits of the tax shield, the maximum increase in eligible work income relative to the previous year will be raised to \$4 000, for each member of a household, as of the 2018 taxation year.

2.4 Enhancement of the tax credit for experienced workers

To encourage experienced workers to remain in or re-enter the labour market, the tax system grants older workers a tax credit that can eliminate the income tax payable on part of their eligible work income that exceeds the first \$5 000.

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 the individual's income for the year from any office or employment, the amount by which the individual's income for the year from any business the individual carries on either alone or as a partner actively engaged in the business exceeds the individual's 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.

¹⁶ Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2015-2016*, March 26, 2015, pp. A.12-A.16.

¹⁷ The maximum increase in eligible work income that could be taken into consideration for each member of a household, as initially announced, was \$2 500, but it was increased to \$3 000 retroactively to the implementation of the tax shield, when the March 2016 Québec Economic Plan was tabled. Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2016-2017*, March 17, 2017, pp. A.21-A.22.

To encourage a greater number of experienced workers to remain in or re-enter the labour market, it was announced as part of Budget Speech 2015-2016 that several changes would be made to the tax credit for experienced workers as of taxation year 2016.¹⁸

Essentially, over a period of two years, these changes 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, when fully implemented, for all workers aged 65 and over.

Also, to ensure that this measure is directed primarily toward persons who may be influenced by such an incentive to remain in or re-enter the labour market, the tax credit became reducible based on work income. However, for workers who were aged 65 or over in 2015, the tax credit may not be lower than the credit that would be determined in their respect if the maximum amount of eligible work income remained the same as in 2015 and the tax credit were not reducible based on work income.

In addition, at the time the March 2016 Québec Economic Plan was tabled, it was announced that the age of eligibility for the tax credit would be lowered, as of the 2018 taxation year, to 62 years of age, the average retirement age of Quebecers. For the new category of workers 62 years of age, the maximum amount of eligible work income on which the tax credit will be calculated was \$4 000 after this announcement.¹⁹

To further encourage experienced workers to remain in the labour market, the age of eligibility for the tax credit will be lowered, as of the 2018 taxation year, to 61 years of age. For the new category of workers 61 years of age, the maximum amount of eligible work income on which the tax credit would be calculated is \$3 000.

Moreover, the tax legislation will be amended to provide that the maximum amount of eligible work income on which the tax credit will be calculated for experienced workers aged 62 and over will be increased by \$1 000 as of the 2018 taxation year.

¹⁸ Ministère des Finances du Québec, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.6-A.12.

¹⁹ Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2016-2017*, March 17, 2016, pp. A.24-A.27.

The following table shows the adjustment of the tax credit for experienced workers as of the 2018 taxation year.

TABLE A.1

Adjustment of maximum eligible work income above the first \$5 000 based on age, as of 2018
(dollars)

Age of experienced worker	Maximum amount of eligible work income
65 years or over	11 000
64 years	9 000
63 years	7 000
62 years	5 000
61 years	3 000

□ New terms for calculating the tax credit

The tax legislation will be amended to provide that an individual who is resident in Québec at the end of a particular taxation year subsequent to 2017—or, if the individual dies in the year, on the date of the individual's death—may deduct, in calculating the individual's tax otherwise payable for particular the year on account of the tax credit for experienced workers, an amount equal to the amount determined using the following formula:

$$(A \times B) - 0.05(C - D)$$

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;²⁰
- the letter B represents:
 - if the individual has reached 66 before the end of the particular year or on the date of individual's death, the amount by which the individual's eligible work income for the year attributable to that year exceeds \$5 000, to a maximum of \$11 000,
 - if the individual is 65 at the end of the particular year or on the date of the individual's death, the aggregate of the following amounts, to a maximum of \$11 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual was under age 65 exceeds \$5 000, to a maximum of \$9 000,

²⁰ The rate currently applicable to this bracket is 15%.

- the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual 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 the individual was under age 65;
- if the individual is 64 at the end of the particular year or on the date of the individual's death, the aggregate of the following amounts, to a maximum of \$9 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual was under age 64 exceeds \$5 000, to a maximum of \$7 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual 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 the individual was under age 64;
- if the individual is 63 at the end of the particular year or on the date of the individual's death, the aggregate of the following amounts, to a maximum of \$7 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual was under age 63 exceeds \$5 000, to a maximum of \$5 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual was age 63 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which the individual was under age 63;
- if the individual is 62 at the end of the particular year or on the date of the individual's death, the aggregate of the following amounts, to a maximum of \$5 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual was under age 62 exceeds \$5 000, to a maximum of \$3 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual was age 62 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which the individual was under age 62;

- if the individual is 61 at the end of the particular year or on the date of the individual's death, the amount by which the individual's eligible work income attributable to the period of the year throughout which the individual was 61 exceeds \$5 000, to a maximum of \$3 000,
- in all other cases, zero;
- the letter C represents the individual's eligible work income for the particular taxation year;
- the letter D represents the reduction threshold applicable for the particular taxation year for the purpose of calculating the tax credit for persons living alone, with respect to age and for retirement income.

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 may not be less than the amount determined using the following formula :

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

□ Terms of application 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 taxation year extends 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).

For the purpose 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. \$3 000, \$5 000, \$7 000, \$9 000 or \$11 000) 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 in accordance with 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 purpose 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 61 during a calendar year subsequent to 2017 in which the individual becomes bankrupt, only the days included in the pre-bankruptcy, post-bankruptcy and calendar years in which the individual is 61 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.

2.5 Changes to the refundable tax credit for informal caregivers of persons of full age

Under the tax system, a refundable tax credit is granted to individuals who house a severely disabled relative at least 18 years of age, or an elderly relative, in order to help the relative. Individuals who co-reside with a person suffering a major loss of independence who is a relative at least 18 years of age, or an elderly spouse, may also claim this refundable tax credit.

The refundable tax credit for informal caregivers of persons of full age breaks down into three components based on whether an individual houses or co-resides with a relative, or is the relative's spouse.

Where the housing or co-residency occurs in a non-conjugal context, the tax credit is granted for a year to an individual in respect of each person who, throughout the minimum housing or co-residency period, is an eligible relative whom the individual houses or with whom the individual co-resides, as the case may be. As a general rule, the minimum housing or co-residency period is 12 months, of which at least six months are in the year for which the tax credit is claimed.

To be considered an individual's eligible relative, a person must not only be of full age, but must also be the child, grandson, granddaughter, nephew, niece, brother, sister, father, mother, uncle, aunt, grandfather, grandmother, great-uncle or great-aunt of the individual or of the individual's spouse, or another direct ascendant of the individual or of the individual's spouse, and must, as applicable:

- if the person is housed by the individual, have a severe and prolonged impairment in mental or physical functions, unless the person is at least 70 years of age, or would have reached that age had the person not died before the end of the year, and the person is the father, mother, grandfather, grandmother or any other direct ascendant of the individual or of the individual's spouse, namely, the uncle, aunt, great-uncle or great-aunt of the individual or the individual's spouse;

- if the person is someone with whom the individual co-resides, have a severe and prolonged impairment in mental or physical functions that renders the person unable to live alone, as attested by a certification from a physician.

For the purposes of the co-residing informal caregivers component and the spousal informal caregivers component, the individual must attach, to the individual's tax return for the year for which the individual claims the tax credit, the certification from a physician confirming that, because of the severe and prolonged impairment in mental or physical functions, the relative is unable to live alone.

In the case of individuals acting as informal caregivers of eligible relatives otherwise than in a conjugal context, the tax credit consists of, for each eligible relative whom an individual houses or with whom an individual co-resides, a basic amount, which is \$652 for 2018,²¹ plus a supplement reducible on the basis of the eligible relative's income for the year for which the tax credit is claimed. This supplement is \$533 for 2018.²² The supplement is reduced according to a rate of 16% for each dollar of the eligible relative's income that exceeds the reduction threshold applicable for the year.²³

Briefly, in a context of conjugal co-residency, the tax credit is granted to individuals who, throughout the minimum co-residency period, live in a dwelling, other than a dwelling situated in a private seniors' residence, with a spouse at least 70 years of age at the end of the year or, if the spouse died during the year, on the date of the spouse's death, who has a severe and prolonged impairment in mental or physical functions. In this case, the tax credit is composed of a lump-sum amount, which is \$1 015 for 2018.²⁴

²¹ This amount is automatically adjusted each year.

²² See the preceding note.

²³ This threshold is \$23 700 for 2018 and is automatically adjusted each year.

²⁴ See note 21.

The following table presents the parameters used to determine the refundable tax credit granted to individuals acting as informal caregivers of eligible relatives.

TABLE A.2

Parameters used to determine the refundable tax credit granted to informal caregivers of eligible relatives
(dollars)

	2017	2018
Housing or co-residency component – relative other than a spouse		
Basic amount ⁽¹⁾	647	652
Reducible supplement amount ⁽¹⁾	529	533
Reduction threshold ⁽²⁾	23 505	23 700
Spousal informal caregivers component		
Amount for a spouse ⁽¹⁾	1 007	1 015

(1) This parameter is automatically adjusted each year and rounded to the nearest dollar.

(2) This parameter is automatically adjusted each year and rounded to the nearest \$5.

2.5.1 More flexible refundable tax credit conditions to further recognize informal caregivers

While many people with a severe and prolonged impairment enjoy a certain amount of independence, many others are heavily dependent on someone else because of their impairment. The families of such people are called on to be there for them, ensure their well-being and safety and, to the extent possible, assist them in their efforts to achieve or recover a degree of independence.

Numerous people with such impairments have expressed the desire to remain in their community as long as possible, close to their natural networks of friends and relatives. Technological advances have also enabled them to communicate with their relatives more easily and, in certain cases, have given them a relative independence that would otherwise have been out of reach. Consequently, some people are able to live alone despite their severe and prolonged impairment. Nevertheless, relatives, as informal caregivers, play a key role in the ability of these people to stay at home and in their quality of life.

Thus, to recognize the involvement of a family member of a person with a severe impairment, even though the family member does not co-reside with the person, a new component will be added to the tax credit for informal caregivers as of the 2018 taxation year.

The refundable tax credit for informal caregivers of persons of full age will now comprise four components. The fourth component will apply to informal caregivers who, without housing or co-residing with a relative, regularly and continuously help the relative.

❑ Individual eligible for the new component of the tax credit

An individual who is resident in Québec, at the end of a particular year²⁵—or, if the individual dies in the year, on the date of the individual's death—will be able to claim, for that year, a refundable tax credit of up to \$533 in respect of each person who, throughout the minimum period of support provided to the person by the individual for the year, is an eligible relative of the individual.

However, an individual may not claim the tax credit for a particular taxation year if the individual is a dependant of another person for the particular year.²⁶

❑ Amount of the tax credit

The new component of the tax credit will consist of \$533 for each eligible relative and will be reducible on the basis of the eligible relative's income for the year for which the tax credit is claimed.

This amount will be reduced at a rate of 16% for each dollar of the eligible relative's income that exceeds a threshold of \$23 700.

As with the main parameters of the personal income tax system, the various parameters of the new component of the refundable tax credit for informal caregivers of persons of full age, apart from the reduction rate, will be automatically adjusted each year as of the 2019 taxation year.²⁷

²⁵ More specifically, at the end of December 31 of the particular year.

²⁶ An individual may not claim this new, co-residency-free component of the refundable tax credit for informal caregivers of persons of full age, for a particular taxation year, if a person other than the individual's spouse deducted in respect of the individual, in the calculation of the person's tax otherwise payable for the year, an amount on account of the tax credit for minor children engaged in vocational training or post-secondary studies, the tax credit respecting other dependants, the tax credit attributable to the transferred amount representing the recognized parental contribution, the tax credit for medical expenses or the tax credits relating to medical care not provided in the region of residence.

²⁷ The index to be used for this adjustment 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 one for which an amount is to be adjusted, compared to the average QCPI-WAT for the 12-month period ended on September 30 of the year prior to the year preceding the one for which an amount is to be adjusted.

This index will be applied, for a particular year, to the previous year's value of the amount subject to adjustment. For greater clarity, where the tax credit amount reducible on the basis of the eligible relative's income obtained by applying the index is not a multiple of 1, it will be adjusted to the nearest multiple of 1 or, if it is equidistant from two multiples of 1, to the nearest higher multiple of 1. Similarly, where the amount resulting from the adjustment of the eligible relative's income threshold for a particular year beyond which the tax credit amount for the year is reduced is not a multiple of 5, it will be rounded to the nearest multiple of 5, or, if it is equidistant from two such multiples, rounded to the nearest higher multiple of 5.

Moreover, given that the recognized essential needs of persons under 18 years of age are covered by the refundable tax credit for child assistance, the amount of the refundable tax credit for informal caregivers of persons of full age under the new component that is determined for a year in respect of an eligible relative who reaches 18 years of age during the year will be reduced by an amount equal to the proportion of that amount that the number of months in the year during which the eligible relative was, at any time, under 18 years of age is of 12.

In addition, to take into account the fact that the basic benefit of a family who receives last resort financial assistance is adjusted upward where a dependent child of full age who is handicapped attends a secondary-level educational institution in general education, the amount granted under the new component of the refundable tax credit for informal caregivers in respect of such a person for a year must be reduced by any amount received by the individual or the individual's spouse on account of the adjustment for that year.²⁸

❑ Eligible relatives

For the purposes of the new component of the tax credit for informal caregivers of persons of full age, a person will be considered an eligible relative of an individual for a minimum period of support provided to the person by the individual for a year, if, throughout that period, the person meets the following conditions:

- the person's principal place of residence is situated in Québec;
- the person is either the child, grandson, granddaughter, nephew, niece, brother, sister, father, mother, uncle, aunt, grandfather, grandmother, great-uncle or great-aunt of the individual or of the individual's spouse, or another direct ascendant of the individual or of the individual's spouse;
- the person does not live in a dwelling situated in a private seniors' residence²⁹ or in a public network facility;³⁰
- the person has a severe and prolonged impairment³¹ because of which, according to the certification from a physician,³² the person needs assistance in carrying out a basic activity of daily living.

²⁸ See subsection 2.11.

²⁹ For greater clarity, nor must the person live in a private residential and long-term care centre.

³⁰ This term is defined as in the first paragraph of section 1029.8.61.1 of the *Taxation Act*. Essentially, it refers to a public institution or a private institution which is party to an agreement that operates a hospital centre, a residential and long-term care centre or a rehabilitation centre, a facility maintained by a hospital centre or a reception centre, or a building or residential facility where are offered the services of an intermediate resource or a family-type resource within the meaning of the *Act respecting health services and social services* (CQLR, chapter S-4.2).

³¹ As defined for the purposes of the tax credit for a severe and prolonged impairment in mental or physical functions.

³² See subsection 2.5.2.

For greater clarity, despite the death of the individual who was the spouse of an informal caregiver, the individual, for the purpose of determining whether a person is an eligible relative of the informal caregiver, will be deemed to be the caregiver's spouse.

❑ Minimum period of support

The minimum period of support provided to a person by an individual for a particular taxation year will correspond to a period of at least 365 consecutive days commencing in the year or in the preceding year, of which at least 183 are in the particular year during which the individual provided unremunerated regular, continuous assistance to the relative by assisting the relative in carrying out a basic activity of daily living.

❑ Other terms of application

The other terms of the refundable tax credit for informal caregivers of persons of full age will continue to apply.³³ Where more than one informal caregiver is eligible for the new, co-residency-free component of the tax credit in respect of the same eligible relative, the aggregate of the amounts indicated by each of them in their tax return must not exceed the amount that would have been allowed if only one of them had been eligible for the tax credit for the year. Failing agreement between the informal caregivers, the Minister of Revenue will determine the amount that each of them may claim.

Lastly, no amount will be granted under this new component of the tax credit for informal caregivers of persons of full age in respect of an eligible relative for a taxation year, if an individual claims an amount under one of the other three components of the tax credit in respect of the relative for the taxation year.

2.5.2 Recognition of nurse practitioners respecting certifications required for the purposes of the refundable tax credit for informal caregivers of persons of full age

On March 22, 2017, the Minister of Finance of Canada tabled the federal government's budget for 2017. At that time, he tabled, in the House of Commons, supplementary information describing in detail each of the tax measures proposed in the budget, along with notices of ways and means motions to amend federal tax legislation and regulations accordingly. One of these measures consisted in the addition of nurse practitioners to the list of medical practitioners authorized to issue certifications for the purposes of the tax credit for severe and prolonged impairment in physical or mental functions.

³³ Accordingly, to obtain the tax credit for a taxation year, the individual must file a tax return for the year, apply for the credit on the prescribed form and provide the certification from an authorized health professional confirming the person's severe and prolonged impairment in mental or physical functions. However, the certification confirming that the person, because of the person's impairment, is unable to live alone will be replaced by a certification confirming that, because of the person's impairment, the person needs assistance in carrying out a basic activity of daily living.

In *Information Bulletin 2017-6* of April 28, 2017, the Ministère des Finances du Québec announced that Québec legislation would be amended to authorize nurse practitioners to issue certifications for the purposes of the tax credit for severe and prolonged impairment in physical or mental functions.

In certain cases, informal caregivers of persons with such impairments may be eligible for the refundable tax credit for informal caregivers of persons of full age. More specifically, in the case of the co-residing informal caregivers component and the spousal informal caregivers component, the individual must attach, to the individual's tax return for the year for which the individual claims the tax credit, the certification from a physician confirming that the relative has a severe and prolonged impairment in physical or mental functions rendering the relative unable to live alone.

In addition, for the purposes of the new, co-residency-free component of the tax credit for informal caregivers,³⁴ the individual must attach, to the tax return for the year for which the individual claims the tax credit, the certification from a physician confirming that the eligible relative, because of the relative's severe and prolonged impairment in physical or mental functions, needs assistance in carrying out a basic activity of daily living.

Thus, out of a concern for consistency, nurse practitioners will also be authorized, for the purposes of the refundable tax credit for informal caregivers of persons of full age, to issue certifications confirming that the eligible relative, because of the relative's severe and prolonged impairment in physical or mental functions, is unable to live alone or needs assistance in carrying out a basic activity of daily living, as the case may be.

These amendments will apply as of the day of the budget speech.

2.6 Enhancement of the refundable tax credit for volunteer respite provided to informal caregivers

Today, thousands of people with significant and persistent disabilities can live safely in their homes. However, despite the range of home care support services available to them through the health and social services network, many of them would inevitably be placed in an institutional setting were it not for the dedication of their relatives. Informal caregivers therefore play a key role in enabling people with such disabilities to stay at home.

In general, informal caregivers are people who provide unremunerated continuous care and assistance to a recipient, often a family member, who needs support because of the recipient's physical, cognitive or mental condition. Regardless of whether they take on these responsibilities by choice or out of necessity, their role and dedication are no less essential to the people to whom they provide care.

³⁴ See subsection 2.5.1.

However, as the role of informal caregivers in the provision of care to people with significant disabilities grows, so does their need for respite. Consequently, respite services can be crucial in giving informal caregivers a break from their care duties, relieving their tension, preventing them from having a burnout and enabling them to spend time on other activities.

To recognize the remarkable contribution made by certain individuals who provide volunteer home respite services to informal caregivers of people with significant disabilities, the tax system grants a refundable tax credit of up to \$500 in relation to each care recipient in respect of whom an eligible individual provides volunteer respite services to an informal caregiver, where the informal caregiver attributed that amount to the eligible individual.

To that end, a person has at their disposal, for recognition purposes, an envelope of \$1 000 per year in relation to each care recipient of whom the person is the informal caregiver³⁵ for the year. Of this amount, the person may attribute to any eligible individual who, during the year, provided the person with at least 400 hours of volunteer respite services in respect of a particular care recipient, not more than \$500 on account of the refundable tax credit for volunteer respite provided to informal caregivers.

A care recipient is a person with a significant long-term disability and for whom an intervention plan or an individualized service plan has been developed by an institution in the health and social services network, where:

- the person has a severe and prolonged impairment in mental or physical functions, if the person is 18 years of age or over;
- the supplement for handicapped children is paid in respect of the person, if the person is a minor.

In general, an eligible individual means a person who is neither the care recipient's spouse, nor the care recipient's father, mother, child, brother or sister, or such a person's spouse,³⁶ as the case may be, who, in a particular calendar year, provides at least 400 hours of volunteer respite services to an informal caregiver of the care recipient.

Volunteer respite services are unremunerated services provided by an individual in the home of a care recipient that consist in providing care to the care recipient, performing tasks that are normally carried out by the informal caregiver, in relation to the care recipient, freeing the informal caregiver from certain daily tasks so that the informal caregiver can be with the care recipient at all times, or providing any other similar service in order to provide respite to the informal caregiver.

³⁵ Briefly, an informal caregiver means a person who lives with the care recipient and who is the care recipient's spouse or a person in respect of whom the care recipient is an eligible relative, as defined for the purposes of the refundable tax credit for informal caregivers housing persons of full age.

³⁶ Without taking into account the broad meaning of these terms in the tax legislation.

Thus, to further support informal caregivers, changes will be made to the refundable tax credit for volunteer respite provided to informal caregivers, as of the 2018 taxation year.

First, the requirement relating to the number of hours of volunteer respite services to be provided by an individual to an informal caregiver in respect of a care recipient will be eased. In addition, the maximum amount that may be attributed by an informal caregiver, in relation to a care recipient, to an eligible individual for a taxation year on account of the refundable tax credit for volunteer respite provided to informal caregivers will be adjusted based on the number of hours of volunteer respite services provided to the informal caregiver by the individual in respect of the care recipient. These changes to the application of the refundable tax credit for volunteer respite provided to informal caregivers, in respect of a care recipient, will be as follows:

- a maximum amount of \$250 may be attributed for the year to an individual by an informal caregiver in relation to the care recipient, where the individual provides to the informal caregiver in the year at least 200 hours of volunteer respite services in respect of the care recipient;
- a maximum amount of \$500 may be attributed for the year to an individual by an informal caregiver in relation to the care recipient, where the individual provides to the informal caregiver in the year at least 300 hours of volunteer respite services in respect of the care recipient;
- a maximum amount of \$750 may be attributed for the year to an individual by an informal caregiver in relation to the care recipient, where the individual provides to the informal caregiver in the year at least 400 hours of volunteer respite services in respect of the care recipient.

Second, the annual envelope at a person's disposal, for recognition purposes, in relation to each care recipient of whom the person is an informal caregiver for the year will be raised from \$1 000 to \$1 500.

Thus, an informal caregiver may attribute, at the caregiver's discretion, amounts on account of the tax credit, where the amount given to an eligible individual in relation to the same care recipient does not exceed the maximum allowable amount for the number of hours of volunteer respite services provided to the informal caregiver by the individual in the year in respect of the care recipient.

The following table illustrates the increase in the maximum amount of the refundable tax credit for volunteer respite provided to informal caregivers, as well as the adjustment of the tax credit according to the number of hours of volunteer respite services provided.

TABLE A.3

Illustration of the increase in the maximum amount of the refundable tax credit for volunteer respite provided to informal caregivers according to the number of hours of volunteer respite services
(dollars)

	Current system	Enhanced system
Less than 200 hours	—	—
200 to less than 300 hours	—	250
300 to less than 400 hours	—	500
400 hours or more	500	750

For greater clarity, the other terms of the refundable tax credit for volunteer respite provided to informal caregivers remain unchanged.

2.7 Enhancement of the refundable tax credit for the acquisition or rental of property intended to help seniors live independently longer

Most seniors say they want to stay in their home as long as possible, close to their natural networks of friends and family or, at the very least, remain as independent as possible in their living environment. Accordingly, their home should be the place where they feel the safest. Yet, many seniors sustain injuries at home because of falls or loss of balance. Nowadays, there are a number of devices on the market that help improve the independence of seniors by reducing as much as possible the risk of falls or shortening the response time in the event of an accident, making it easier for them to stay in their home.

Against this backdrop, the refundable tax credit for the acquisition or rental of property intended to help seniors live independently longer has been granted under the tax system since 2012, to reduce the cost of such property for seniors requiring it.

Thus, an individual who, at the end of a particular taxation year³⁷—or, if the individual died in the year, on the date of the individual's death—was resident in Québec and had reached 70 years of age is eligible for a refundable tax credit for the year equal to 20% of the amount by which \$500 is exceeded by the aggregate of all amounts paid in the year by the individual, or by the person who is the individual's spouse at the time of payment, for the acquisition or rental, including installation costs, of qualified property intended for use in the individual's principal place of residence. "Qualified property" means:

- a person-centered remote monitoring device, such as an emergency alert system (panic button) or a device for the remote measurement of various physiological parameters or the remote monitoring of medication compliance;
- a personal GPS locator;
- a property designed to assist a person to get on or off a toilet or to get into or out of a bathtub or shower;
- a walk-in bathtub or a walk-in shower;
- a chair mounted on a rail designed exclusively to enable a person to ascend or descend a stairway mechanically; or
- a hospital bed.

However, amounts that were taken into account in the calculation of eligible expenses for the purposes of another refundable or non-refundable tax credit claimed by the individual or any other person do not qualify for the refundable tax credit for the acquisition or rental of property intended to help seniors live independently longer.

Nor may this tax credit be claimed with respect to amounts for which a taxpayer was eligible for a refund or other form of assistance, unless the amounts must be included in the calculation of a taxpayer's income and are not deductible in the calculation of the taxpayer's income or taxable income.

Yet, the use of environmental control systems for persons with hearing impairments and of non-motorized mobility aids also contribute to the safety and mobility of seniors in their living environment.

Consequently, to enable more seniors to obtain the property necessary to maximize their independence and ensure their safety, the refundable tax credit for the acquisition or rental of property intended to help seniors live independently longer will be enhanced, as of the 2018 taxation year, through the reduction, to \$250, of the threshold at which the tax credit may be claimed in respect of expenses paid for qualified property, and through the broadening of the existing list of qualified property.

³⁷ More specifically, at the end of December 31 of the particular year.

The refundable tax credit for the acquisition or rental of property intended to help seniors live independently longer will therefore be equal to 20% of the amount by which \$250 is exceeded by the aggregate of all amounts paid in the year by an individual or by the person who is the individual's spouse at the time of payment, for the acquisition or rental, including installation costs, of qualified property intended for use in the individual's principal place of residence.

Thus, the following will also be qualified property for the purposes of the tax credit:

- alert systems for persons with hearing impairments;³⁸
- hearing aids;
- walkers;
- rollators;
- canes;
- crutches;
- non-motorized wheelchairs.

2.8 Broadening of the tax credit for persons living alone, in order to encourage intergenerational cohabitation

The amount for persons living alone granted in the calculation of the tax credit for persons living alone, with respect to age and for retirement income is intended to recognize the additional needs, compared to those of persons living in a couple, that arise when a housing unit or a residence is occupied by a person alone or by a single-parent family (for example, rent, telephone and electricity costs, and other fixed costs that couples can share).

To receive for a year the amount for persons living alone,³⁹ an individual must ordinarily live, throughout the year or throughout the period of the year before the time of the person's death, in a self-contained domestic establishment⁴⁰ maintained by the individual and in which no person, other than the individual, a person under 18 years of age or an eligible student of whom the individual is the father or mother lived during the year.

An eligible student is a person who is 18 years of age or over during the year and who began, in the year, at least one recognized term of study at a designated educational institution where the person was enrolled in a recognized educational program.

³⁸ Such systems include vibrotactile aids, telephone monitors, door monitors, fire alarm monitors, sound monitors and adapted alarm clocks (visual, tactile or for deaf-blind persons).

³⁹ The amount for persons living alone is automatically adjusted each year. The amount is \$1 721 for 2018.

⁴⁰ "Self-contained domestic establishment" means a dwelling-house, apartment or other similar place of residence in which a person, as a general rule, sleeps and eats.

A recognized term of study is a term that is completed and during which a person was in full-time attendance at a designated educational institution.⁴¹

A designated educational institution is an educational institution that the Minister of Education, Recreation and Sports or the Minister of Higher Education, Research, Science and Technology⁴² designates 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*.⁴³

A recognized educational program is an educational program under which each student taking the program must spend not less than 9 hours per week on courses or work in the program⁴⁴ and that is:

- 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, Science and Technology⁴⁵ 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*; and
- if the educational institution is situated outside Québec, an educational program at the college level or at the university level or the equivalent.

In addition, where an individual has no child in respect of whom the individual may claim the refundable tax credit for child assistance for the last month of the year, the individual may add a supplement for single-parent families⁴⁶ to the amount for persons living alone if, during the year, the individual lived with the eligible student of full age.

However, where an individual received a refundable tax credit for child assistance in a particular year, the supplement for single-parent families that may be added to the amount for persons living alone must be reduced according to the number of months in the year for which the individual could claim the tax credit.

For the purpose of calculating the tax credit for a taxation year, the amount for persons living alone, including the amount granted on account of the supplement for single-parent families, must be added to the amounts for retirement income and with respect to age calculated for the year, as the case may be.

⁴¹ In this regard, a person is deemed to pursue full-time studies if the person has a major functional deficiency within the meaning of the *Regulation respecting financial assistance* (CQLR, chapter A-13.3, r. 1) and, for that reason, pursues studies on a part-time basis.

⁴² Currently, the Minister responsible for Higher Education assumes the responsibilities of the Minister of Higher Education, Research, Science and Technology in this regard.

⁴³ CQLR, chapter A-13.3.

⁴⁴ This requirement is relaxed if the person has a major functional deficiency within the meaning of the *Regulation respecting financial assistance*.

⁴⁵ See note 42.

⁴⁶ The supplement for single-parent families is automatically adjusted each year, and is \$2 124 for 2018.

The aggregate of these amounts and, as the case may be, of similar amounts determined for the individual's eligible spouse⁴⁷ for the year, is then reduced once. The rate of this reduction is 18.75% for each dollar of the individual's family income (the individual's net income and, as the case may be, that of the individual's eligible spouse) that exceeds the reduction threshold for the year.⁴⁸ The aggregate of the amounts thus reduced is converted into a tax credit at a rate of 15%.

However, as is often the case, eligible students must leave the family home to continue their studies. Sometimes, they go live with their grandfather or grandmother, for instance, to save on certain costs, such as rent. Currently, a grandfather or grandmother who was living alone prior to their grandson's or granddaughter's arrival loses the benefit of the amount for persons living alone in the calculation of the tax credit.

Consequently, to recognize the support that seniors provide to their grandchildren or great-grandchildren of full age during their studies, the tax legislation will be amended to provide that, for a taxation year subsequent to 2017, an individual who ordinarily lives, throughout the year—or, if the individual dies in the year, throughout the period of the year before the time of the individual's death—in a self-contained domestic establishment maintained by the individual and in which no person, other than the individual, a person under 18 years of age or an eligible student of whom the individual is either the father, mother, grandfather or grandmother, or the great-grandfather or great-grandmother,⁴⁹ lived during the year may claim, for that year, the amount for persons living alone in the calculation of the tax credit.

For greater clarity, the rules pertaining to the supplement for single-parent families remain unchanged. Consequently, only the father or mother of an eligible student may receive this supplement, provided the other conditions presently provided for in the tax legislation are met.

2.9 Enhancement of the refundable tax credit for childcare expenses

As a general rule, families who pay childcare expenses may claim a refundable tax credit compensating them for part of the expenses.

Essentially, the main purpose of the tax credit is to recognize costs borne by parents who require childcare services so that they can work, pursue studies or seek employment.

The amount of this tax credit is calculated by applying, to a taxpayer's qualified childcare expenses for a taxation year, the rate corresponding to the taxpayer's family income for the year. The rate decreases gradually, from 75% to 26%, as family income rises.

⁴⁷ This is the person who is the individual's eligible spouse for the year for the purposes of the mechanism for transferring the unused portion of certain non-refundable tax credits to the spouse.

⁴⁸ The reduction threshold is automatically adjusted each year, and is \$34 030 for 2018.

⁴⁹ As these terms are broadly defined in the tax legislation.

Under a table with 32 family income brackets, where an individual's family income does not exceed \$35 345,⁵⁰ the rate for converting qualified childcare expenses into a tax credit is 75%. The tax credit rate then decreases, reaching 26% at the 32nd family income bracket, which applies to family income exceeding \$157 525.⁵¹

Expenses incurred by a taxpayer for the purpose of providing a child⁵² with babysitting services, day nursery services, or childcare services at a camp can qualify for the refundable tax credit for childcare expenses, subject to certain exclusions,⁵³ where, as a general rule, the expenses were incurred to enable the taxpayer or the taxpayer's spouse to work, pursue studies or actively seek employment.

However, expenses paid by a taxpayer for the purpose of providing childcare services for the taxpayer's child, in respect of which the tax credit may be claimed, may be subject to the annual limit applicable on the basis of the child's age and condition. This limit is currently \$11 000 in the case of a child with a severe and prolonged impairment in mental or physical functions, \$9 000 in the case of a child under 7 years of age at the end of the year who does not have such an impairment and \$5 000 in all other cases.

2.9.1 Increase in the annual limits applicable to childcare expenses

To better take into account the cost of childcare, the limit applicable to childcare expenses paid in respect of a child with a severe and prolonged impairment in mental or physical functions and the limit applicable to childcare expenses paid in respect of a child who does not have such an impairment and who is under 7 years of age at the end of a year, or who would have been had the child been living, will be \$13 000 and \$9 500, respectively, as of the 2018 taxation year.

The new annual limit of \$13 000 applicable to expenses paid in respect of a child with a severe and prolonged impairment in mental or physical functions will enable expenses paid at a daily rate of up to \$50 for full-time childcare in respect of the child to be taken into account in the calculation of the tax credit.

Similarly, further to the increase in the annual limit, expenses paid for the purpose of providing full-time childcare services for a child under 7 years of age at the end of the year, at a daily rate of up to \$36.50, may be fully taken into account in the calculation of the tax credit.

⁵⁰ This amount is for 2018.

⁵¹ Ibid.

⁵² The child must be, at any time in the year, under 16 years of age or a dependant because of a mental or physical infirmity.

⁵³ Briefly, childcare expenses that do not qualify for the purposes of the tax credit include the reduced contribution payable for childcare services provided by a childcare centre or a home childcare provider, or, in the case of school-aged children, childcare services provided at a school, where the child attends childcare on a regular basis.

2.9.2 Adjustment of all annual limits applicable to childcare expenses

Under the tax legislation, the main parameters of the personal income tax system, most of which are parameters used to determine tax credits, are automatically adjusted each year.

In fact, the family income brackets in the table used to determine the applicable rate for converting qualified childcare expenses into a refundable tax credit for childcare expenses are already adjusted annually.

Thus, to better update tax assistance for families by reflecting the annual increase in expenses payable for childcare services, the three annual limits on childcare expenses eligible for the purposes of the refundable tax credit for childcare expenses—\$13 000,⁵⁴ \$9 500⁵⁵ and \$5 000—will be automatically adjusted each year as of the 2019 taxation year.

As with the adjustment of the main parameters of the personal income tax system, the index to be used with respect to this adjustment 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 one for which an amount is to be adjusted, compared to the average QCPI-WAT for the 12-month period ended on September 30 of the year prior to the year preceding the one for which an amount is to be adjusted.

This index will be applied, for a given year, to the amount of each of the three annual limits, applicable to childcare expenses qualifying for the tax credit, established for the previous year. Where the result obtained after applying the new index to such an amount does not correspond to a multiple of 5, it will be adjusted to the nearest multiple of 5 or, if it is equidistant from two multiples of \$5, rounded to the nearest higher multiple of 5.

2.10 Extension of the tax credit for a first major cultural gift

To increase the number of major cultural gifts, the non-refundable tax credit for a first major cultural gift was introduced at the time *Information Bulletin 2013-6* was published.⁵⁶ This tax credit of up to \$6 250 is granted to individuals, on certain conditions, in respect of a first major cultural gift made after July 3, 2013 but before January 1, 2018.

More specifically, an individual, other than a trust, may claim for a taxation year, in addition to the tax credit for gifts,⁵⁷ a non-refundable tax credit corresponding to 25% of the amount of the individual's major cultural gift for the year. However, an individual may claim this non-refundable tax credit for only one major cultural gift.

⁵⁴ See subsection 2.9.1.

⁵⁵ See subsection 2.9.1.

⁵⁶ Ministère des Finances et de l'Économie du Québec, *Information Bulletin 2013-6*, July 3, 2013, pp. 6-9.

⁵⁷ This tax credit is provided for in section 752.0.10.6 of the *Taxation Act*.

For the purposes of this tax credit, a major cultural gift of an individual for a taxation year means the eligible amount of a gift of money, up to \$25 000, made by the individual in the year or in any of the four preceding taxation years to an eligible cultural donee,⁵⁸ if the eligible amount of the gift is at least \$5 000.

Given the increase in the number of major cultural gifts since the introduction of this measure, it will be extended five years. The tax legislation will therefore be amended to allow an individual to claim the non-refundable tax credit for a first major cultural gift made before January 1, 2023.

2.11 Correlative amendments respecting the implementation of the Aim for Employment Program

The *Individual and Family Assistance Act*⁵⁹ provides for various financial assistance programs, such as the Social Assistance Program, Social Solidarity Program and Youth Alternative Program.

However, as of April 1, 2018, the Youth Alternative Program will end and the Aim for Employment Program will be implemented. The purpose of the new Aim for Employment Program is to offer individualized support to enter the labour market, through training in particular, to persons who would be eligible for the Social Assistance Program for the first time.

Benefits received under the Aim for Employment Program will be taxable, like those received under the Social Assistance Program.

Moreover, on November 21, 2017, at the time the Québec Economic Plan update was tabled, it was announced that the eligibility criteria would be eased for the supplement to the work premium, which combines with the general work premium or the adapted work premium granted by means of a refundable tax credit. At that time, it was also announced that benefits received by an individual under the Aim for Employment Program would be taken into account in determining the individual's eligibility for the supplement to the work premium.

Due to the implementation of the Aim for Employment Program on April 1, 2018, amendments will be made to the tax legislation. Essentially, further to these amendments, the various rules currently applicable to benefits received under the Social Assistance Program will also apply to benefits received under the new Aim for Employment Program.

❑ Refundable tax credit for child assistance

The refundable tax credit for child assistance (RTCCA) occupies an important place in Québec's family policy, in that it provides families with financial assistance to help them provide for their children under 18 years of age.

⁵⁸ "Eligible cultural donee" means a registered charity operating in Québec in the field of arts or culture, a registered cultural or communications organization, a registered museum, a museum established under the *National Museums Act* (CQLR, chapter M-44) or a museum situated in Québec and established under the *Museums Act* (S.C. 1990, c. 3).

⁵⁹ CQLR, chapter A-13.1.1.

This tax credit is composed of a child assistance payment, a supplement for handicapped children, a supplement for handicapped children with exceptional care needs, and, since 2017, a supplement for the purchase of school supplies.

Retraite Québec is responsible for paying the RTCCA to Québec families and makes RTCCA payments on a quarterly basis. Each instalment, made in January, April, July and October, includes the amounts determined for the months in the quarter. However, Retraite Québec makes RTCCA payments on a monthly basis if an individual so requests, in which case each instalment includes the amount determined for that month.

Retraite Québec may allocate any RTCCA amount payable to an individual for a particular month to the payment of any amount of which the individual is a debtor under the RTCCA, the *Act respecting family benefits*⁶⁰ or the *Act respecting family assistance allowances*⁶¹ (as the provisions of these two statutes applied in respect of the debtor).

However, the allocation must be made taking into account the fact that an individual receives a benefit under a last resort financial assistance program provided for in the *Individual and Family Assistance Act*.

The tax legislation will therefore be amended to provide that, as of April 1, 2018, the allocation of an amount by Retraite Québec must also be made taking into account the fact that an individual receives a benefit under the Aim for Employment Program.

❑ Refundable tax credit for informal caregivers of persons of full age

The refundable tax credit for informal caregivers of persons of full age consists of three components. A fourth component will be introduced as of the 2018 taxation year.⁶² The first component is for informal caregivers who house, in the strict sense of the term, an eligible relative (hereinafter, “tax credit for informal caregivers housing persons of full age”), the second, for informal caregivers who co-reside with an eligible relative who is unable to live alone (hereinafter, “tax credit for informal caregivers co-residing with persons of full age”), and the third, for certain informal caregivers who provide care to an elderly spouse. The fourth component will be essentially for informal caregivers who, without housing or co-residing with an eligible relative, provide support to the relative on a regular and continuous basis.

⁶⁰ CQLR, chapter P-19.1.

⁶¹ CQLR, chapter A-17.

⁶² See subsection 2.5.1.

The tax credit for informal caregivers housing persons of full age and the tax credit for informal caregivers co-residing with persons of full age are composed of a determined amount equal to the total of a universal basic amount and a supplement reducible at a rate of 16% for each dollar of income of the eligible relative housed, or of the eligible relative with whom the informal caregiver co-resides, that exceeds a certain threshold. The new, co-residency-free component of the tax credit for informal caregivers providing support to relatives on a regular and continuous basis is composed solely of a reducible amount equivalent to the reducible supplement.

The amount thus determined must be reduced by the amount of a financial assistance benefit received by the individual or the individual's spouse in respect of an eligible relative under the Social Assistance Program or the Social Solidarity Program that is attributable to the amount of the increase for a dependent child of full age who is handicapped and attends a secondary-level educational institution in general education provided for in the *Individual and Family Assistance Regulation*.⁶³

However, under the Aim for Employment Program, the basic benefit granted to a family is increased by a monthly amount equivalent to the sum of the adjustments for dependent children to which the family would have been entitled under the Social Assistance Program, including the amount of the increase for a dependant child of full age who is handicapped and attends a secondary-level educational institution in general education.

Consequently, the tax legislation will be amended to provide that the amount determined with regard to the tax credit for informal caregivers housing persons of full age or the tax credit for informal caregivers co-residing with persons of full age, for a taxation year subsequent to 2017, must be reduced by the amount of a financial assistance benefit received in the year by the individual or the individual's spouse in respect of an eligible relative under the Aim for Employment Program that is attributable to such an increase amount. A similar clarification will also be made for the purposes of the new, co-residency-free component of the tax credit intended for informal caregivers providing support to eligible relatives on a regular and continuous basis.

❑ Refundable solidarity tax credit

The refundable solidarity tax credit (hereinafter, "solidarity tax credit") is determined in respect of a payment period, which begins on July 1 of a calendar year and ends on June 30 of the following calendar year.

In general, the solidarity tax credit is granted for a payment period to any eligible person, taking into account the person's family income for the base year relating to that period. The base year relating to a payment period is the taxation year that ended on December 31 of the calendar year that precedes the beginning of that period.

⁶³ CQLR, chapter A-13.1.1, r. 1.

After the maximum amount applicable in respect of an individual under the various components of the tax credit has been determined, it is reduced, as the case may be, based on the individual's family income for the base year relating to the payment period (the individual's net income for the base year and, as the case may be, that of the individual's co-habiting spouse⁶⁴).

However, to better take into account the needs of recipients of last resort financial assistance granted under the Social Assistance Program and the Social Solidarity Program, or of recipients of financial assistance granted under the Youth Alternative Program, where an individual is, for the last month of a base year, a recipient of any of these programs provided for in the *Individual and Family Assistance Act*, the individual's income for the base year is deemed equal to zero.

Where an individual is in debt to the state under a fiscal law or certain other laws and the individual is, for a particular payment month, the recipient of last resort financial assistance or of financial assistance granted under the Youth Alternative Program, not more than 50% of the solidarity tax credit amount determined in respect of the individual for the particular month may be allocated to the payment of the individual's debt to the state, provided the individual's status as a recipient was brought to the attention of Revenu Québec at least 21 days before the stipulated date for payment of the amount.

Similarly, not more than 50% of the solidarity tax credit amount determined in respect of a debtor for a particular month may be allocated to the payment of a debt of the debtor to the state, where the debtor's family income for the base year relating to the payment period including the particular month is, according to the most recent notice of determination sent to the debtor, equal to or less than \$20 580.⁶⁵

Consequently, the tax legislation will be amended to provide that:

- where, for the last month of a base year relating to a payment period that begins after June 30, 2019, an individual is the recipient of financial assistance granted under the Aim for Employment Program, the individual's income for the base year will be deemed equal to zero;
- not more than 50% of the solidarity tax credit amount determined, for a particular month subsequent to the month of March 2018, in respect of an individual who, for that month, is the recipient of financial assistance granted under the Aim for Employment Program may be allocated to the payment of a debt of the individual to the state,⁶⁶ provided the individual's status as a recipient was brought to the attention of Revenu Québec at least 21 days before the stipulated date for payment of the amount.

⁶⁴ In general, "co-habiting spouse" of an individual means the person who, at the end of the base year, was the spouse of the individual and was not living separate and apart from the individual.

⁶⁵ This amount is automatically adjusted for each 12-month period beginning on July 1 of a calendar year.

⁶⁶ Specifically, a debt under a fiscal law or another law to which section 1029.8.116.34 of the *Taxation Act* refers.

❑ Clarification concerning the premium payable under the Basic Prescription Drug Insurance Plan

The Basic Prescription Drug Insurance Plan established by the Québec government guarantees all Quebecers fair access to the medications required by their state of health. Coverage under the plan is provided by the Régie de l'assurance maladie du Québec, as the administrator of the Public Prescription Drug Insurance Plan, or by insurers transacting group insurance or by administrators of private sector employee benefit plans.

As a general rule, the Régie de l'assurance maladie du Québec provides coverage for individuals who are not required to become members of a group insurance contract, an individual insurance contract concluded on the basis of one or more of the distinctive characteristics of group insurance or an employee benefit plan applicable to a specified group of persons, as well as coverage for those persons whom no one is required to cover. Adults who are not covered throughout a year by such an insurance contract or such a plan are generally required to pay a premium for that year to fund the Public Prescription Drug Insurance Plan.

An adult who is covered by the Public Prescription Drug Insurance Plan during a year must pay a premium for the year calculated on the basis of each month during which the adult was covered by the plan, unless, for example, the adult is eligible for a last resort financial assistance program provided for under the *Individual and Family Assistance Act* and holds a valid claim booklet issued by the Minister of Employment and Social Solidarity. The *Act respecting the Régie de l'assurance maladie du Québec*⁶⁷ will therefore be amended so that, as of April 1, 2018, the premium payable by an adult to the Public Prescription Drug Insurance Plan for a year will be calculated without taking into account the months for which the adult received benefits under the Aim for Employment Program.

2.12 Change to the rates of the dividend tax credit

As part of Budget 2015-2016,⁶⁸ a reduction of the general corporate tax rate was announced. The tax rate, then 11.9%, was gradually reduced and will reach 11.5% in 2020. However, no change was announced at that time to the rate of the dividend tax credit for eligible dividends.

To take into account that general tax reduction and the increase in the small business deduction (SBD) announced as part of this budget,⁶⁹ and to ensure a better integration of the Québec corporate tax system with the personal tax system, the rates of the dividend tax credit for eligible dividends and the dividend tax credit for non-eligible dividends will be gradually reduced.

⁶⁷ CQLR, chapter R-5.

⁶⁸ Ministère des Finances du Québec, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.37-A.38.

⁶⁹ See subsection 3.1.2.

Consequently, the rate of the dividend tax credit for eligible dividends, which is currently 11.9% of the dividend gross-up amount, will be reduced to 11.86% of the gross-up amount of a dividend received or deemed received after the day of the budget speech but before January 1, 2019. It will be reduced to 11.78% of the gross-up amount of a dividend received or deemed received in 2019, and to 11.7% of the gross-up amount of a dividend received or deemed received after December 31, 2019.⁷⁰

Similarly, the rate of the dividend tax credit for non-eligible dividends, which is currently 7.05% of the dividend gross-up amount, will be reduced to 6.28% of the gross-up amount of a dividend received or deemed received after the day of the budget speech but before January 1, 2019. It will be reduced to 5.55% of the gross-up amount of a dividend received or deemed received in 2019, to 4.77% of the gross-up amount of a dividend received or deemed received in 2020, and to 4.01% of the gross-up amount of a dividend received or deemed received after December 31, 2020.⁷¹

For greater clarity, no change is made to the dividend gross-up rates.

⁷⁰ The rate of the dividend tax credit for eligible dividends will therefore correspond to 16.37% of the actual amount of the dividend received or deemed received after the day of the budget speech but before January 1, 2019. It will be 16.26% of the actual amount of the dividend received or deemed received in 2019 and 16.15% of the actual amount of the dividend received or deemed received after December 31, 2019.

⁷¹ The rate of the dividend tax credit for non-eligible dividends will therefore correspond to 7.28% of the actual amount of the dividend received or deemed received after the day of the budget speech but before January 1, 2019. It will be 6.38% of the actual amount of the dividend received or deemed received in 2019, 5.49% of the actual amount of the dividend received or deemed received in 2020, and 4.61% of the actual amount of the dividend received or deemed received after December 31, 2020.

3. MEASURES CONCERNING BUSINESSES

3.1 Tax relief for small and medium-sized businesses (SMBs)

3.1.1 Gradual reduction of the Health Services Fund contribution rate for all small and medium-sized businesses

Under the *Act respecting the Régie de l'assurance maladie du Québec*,⁷² 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 payroll⁷³ is less than \$5 million.

Briefly, a specified employer for a year is an employer⁷⁴ 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 tax under section 985 of the *Taxation Act*.

The applicable rate for the purpose of calculating the contribution to the Health Services Fund payable by a specified employer for 2018 is 2.3% if the employer's total payroll for the year is \$1 million or less. The rate rises linearly to 4.26%, where the specified employer's total payroll is between \$1 million and \$5 million.

⁷² CQLR, chapter R-5.

⁷³ 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.

⁷⁴ 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.

However, since 2015, employers in the primary and manufacturing sectors have used a reduced rate to calculate their contribution to the Health Services Fund,⁷⁵ in an effort to encourage SMBs in the sectors most susceptible to competition. Thus, a first rate reduction, from 2.7% to 1.6%, was announced for specified employers carrying out their activities in these sectors whose total payroll did not exceed \$1 million.

This decrease was followed by the announcement of another gradual reduction of the rate. Thus, over a five-year period beginning in 2017, the rate was reduced, reaching 1.45% in 2021.⁷⁶

As for specified employers carrying out their activities in these sectors whose total payroll was between \$1 million and \$5 million, the applicable rate for calculating their contribution varied from 1.55% to 4.26% in 2017, depending on their total payroll, and, subsequent to the gradual reduction in these rates, from 1.45% to 4.26% en 2021.

Moreover, it was announced that the tax burden on SMBs in other sectors of activity—the service and construction sectors—whose total payroll did not exceed \$1 million would also be gradually eased.⁷⁷ In that regard, it was determined that the Health Services Fund contribution rate for specified employers in sectors other than the primary and manufacturing sectors, which was 2.7% prior to 2017, would gradually decrease to 2.25% over a three-year period beginning in 2017. After that announcement, this reduction was amplified, the rate for SMBs in other sectors of activity instead being gradually reduced over a five-year period beginning in 2017, reaching 2% in 2021.⁷⁸

A gradual reduction in the contribution rate was also granted to specified employers carrying out their activities in these other sectors that had a total payroll between \$1 million and \$5 million.

However, to provide further tax relief to SMBs and foster their competitiveness, changes will be made to the calculation of the employer contribution to the Health Services Fund.

First, the \$5-million threshold applicable to a specified employer's total payroll for the purpose of determining whether the employer is eligible for the rate reduction available to SMBs will be gradually raised over four years as of 2019, reaching \$7 million in 2022. This threshold will be automatically adjusted each year as of 2023. Accordingly, more businesses will be able to use a rate below the regular rate of 4.26% to calculate their contribution to the Health Services Fund.

Second, a new plan to reduce the Health Services Fund contribution rates for SMBs will be implemented as of 2018. The plan will raise the rate reductions previously announced when the March 2016 Québec Economic Plan was tabled.

⁷⁵ Ministère des Finances du Québec, *Information Bulletin 2014-11*, December 2, 2014, pp. 3-6.

⁷⁶ Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2016-2017*, March 17, 2016, pp. A.29-A.34.

⁷⁷ Ministère des Finances du Québec, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.45-A.48.

⁷⁸ See note 76.

❑ **SMBs in the primary and manufacturing sectors**

An eligible specified employer is any employer that, for a particular year, is a specified employer whose total payroll for the year is less than \$5 million, provided more than 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 and the manufacturing sector that are grouped under codes 11, 21 or 31 to 33 of the North American Industry Classification System (NAICS).⁷⁹

The *Act respecting the Régie de l'assurance maladie du Québec* will be amended, respecting years after 2018, so as to take into account the increase in the \$5-million threshold applicable to an eligible specified employer's total payroll by referring instead to the total payroll threshold applicable for the year.⁸⁰

In addition, as of the day following the day of the budget speech, an additional reduction of the applicable rate for calculating the contribution to the Health Services Fund will be granted to eligible specified employers.

The applicable rate for calculating the Health Services Fund contribution of eligible specified employers having a total payroll of \$1 million or less will decrease gradually from 1.5% to 1.25% over a five-year period. Eligible specified employers whose total payroll for a year exceeds \$1 million will also see a gradual reduction in their contribution rate.

⁷⁹ The description of these codes is available on the Statistics Canada website at www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=380372.

⁸⁰ The applicable total payroll threshold will be \$5.5 million for 2019, \$6 million for 2020, \$6.5 million for 2021 and \$7 million pour 2022. As of 2023, it will be automatically adjusted each year.

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

TABLE A.4

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

	Total payroll								
	\$1M or less	\$2M	\$3M	\$4M	\$5M	\$5.5M	\$6M	\$6.5M	\$7M
Until the day of the budget speech									
Current rates	1.50	2.19	2.88	3.57	4.26	4.26	4.26	4.26	4.26
After the day of the budget speech									
Rates for 2018	1.45	2.15	2.86	3.56	4.26	4.26	4.26	4.26	4.26
Rates for 2019	1.40	2.04	2.67	3.31	3.94	4.26	4.26	4.26	4.26
Rates for 2020	1.35	1.93	2.51	3.10	3.68	3.97	4.26	4.26	4.26
Rates for 2021	1.30	1.84	2.38	2.91	3.45	3.72	3.99	4.26	4.26
Rates for 2022	1.25	1.75	2.25	2.76	3.26	3.51	3.76	4.01	4.26

Note: An employer in the primary or manufacturing sector whose total payroll exceeds \$5 million for 2018, or the total payroll threshold applicable for a year after 2018, is not an eligible specified employer. The employer is therefore not eligible for a reduction of the Health Services Fund contribution rate.

More specifically, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to stipulate that, for the purpose of calculating the Health Services Fund contribution payable for a particular year subsequent to 2017 by an eligible specified employer, the rate applicable to wages subject to the contribution for the year will correspond to:

- for 2018, one of the following rates:
 - where the employer's total payroll for the year is \$1 million or less:
 - 1.50% in respect of wages paid or deemed paid not later than the day of the budget speech,
 - 1.45% in respect of wages paid or deemed paid after the day of the budget speech;

- where the employer's total payroll for the year is over \$1 million but under \$5 million:
 - in respect of wages paid or deemed paid not later than the day of the budget speech, the percentage rate determined by the following formula:

$$0.81\% + \frac{(0.69\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- in respect of wages paid or deemed paid after the day of the budget speech, the percentage rate determined by the following formula:

$$0.7475\% + \frac{(0.7025\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- for 2019, one of the following rates:

- 1.40%, 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 \$5.5 million:

$$0.7644\% + \frac{(0.6356\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- for 2020, one of the following rates:

- 1.35%, 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 \$6 million:

$$0.768\% + \frac{(0.582\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- for 2021, one of the following rates:

- 1.30%, 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 \$6.5 million:

$$0.7618\% + \frac{(0.5382\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- for 2022, one of the following rates:

- 1.25%, 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 \$7 million:

$$0.7483\% + \frac{(0.5017\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

— for any year subsequent to 2022:

- 1.25%, 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 below the total payroll threshold applicable for the year:

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

In the above formula:

— A is the percentage obtained by the following formula:

$$1.25\% - B;$$

— B is the percentage obtained by the following formula:

$$3.01\% \div \left(\frac{\text{total payroll threshold applicable for the year} - 1}{\$1\,000\,000} \right)$$

Where the rate, expressed as a percentage, 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.

However, where the percentage rate determined by the formulas for determining the value of A and B of the formula for determining the rate applicable for the calculation of the Health Services Fund contribution payable for a year after 2022 has more than four decimals, only the first four are to be used and the fourth decimal must be increased by one unit if the fifth is greater than 4.

❑ **SMBs in the service and construction sectors**

To further reduce the tax burden on SMBs carrying out their activities in sectors other than the primary and manufacturing sectors, that is, on SMBs in the service and construction sectors, the Health Services Fund contribution rate for specified employers in the these sectors whose total payroll does not exceed \$1 million will gradually decrease from 2.3% to 1.65% over a five-year period. An additional reduction of the applicable rate for calculating their Health Services Fund contribution will be granted to these specified employers as of the day following the day of the budget speech.

Specified employers in these sectors whose total payroll is over \$1 million without exceeding \$5 million for 2018, or without exceeding the total payroll threshold applicable for a year subsequent to 2018,⁸¹ will also see a gradual reduction over five years of the applicable rate for calculating their contribution to the Health Services Fund.

The following table shows the impact of the gradual reduction of the Health Services Fund contribution rate for SMBs in sectors other than the primary and manufacturing sectors.

⁸¹ See note 80.

TABLE A.5

Illustration of the impact of the gradual reduction of the Health Services Fund contribution rate for SMBs in sectors other than the primary and manufacturing sectors
(per cent)

	Total payroll								
	\$1M or less	\$2M	\$3M	\$4M	\$5M	\$5.5M	\$6M	\$6.5M	\$7M
Until the day of the budget speech									
Current rates	2.30	2.79	3.28	3.77	4.26	4.26	4.26	4.26	4.26
After the day of the budget speech									
Rates for 2018	1.95	2.53	3.11	3.68	4.26	4.26	4.26	4.26	4.26
Rates for 2019	1.80	2.35	2.89	3.44	3.99	4.26	4.26	4.26	4.26
Rates for 2020	1.75	2.25	2.75	3.26	3.76	4.01	4.26	4.26	4.26
Rates for 2021	1.70	2.17	2.63	3.10	3.56	3.79	4.03	4.26	4.26
Rates for 2022	1.65	2.09	2.52	2.96	3.39	3.61	3.83	4.04	4.26

More specifically, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to provide that, for the purpose of calculating the Health Services Fund contribution payable for a particular year subsequent to 2017 by a specified employer other than an eligible specified employer, the rate applicable to wages subject to the contribution for the year will correspond to:

- for 2018, one of the following rates:
 - where the employer's total payroll for the year is \$1 million or less:
 - 2.3% in respect of wages paid or deemed paid not later than the day of the budget speech,
 - 1.95% in respect of wages paid or deemed paid after the day of the budget speech;
- where the employer's total payroll for the year is over \$1 million but under \$5 million:
 - in respect of wages paid or deemed paid not later than the day of the budget speech, the percentage rate determined by the following formula:

$$1.81\% + \frac{(0.49\% \times \text{employer's total payroll for the year})}{1\,000\,000 \$}$$

- in respect of wages paid or deemed paid after the day of the budget speech, the percentage rate determined by the following formula:

$$1.3725\% + \frac{(0.5775\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26% in all other cases;

- for 2019, one of the following rates:

- 1.80%, 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 \$5.5 million:

$$1.2533\% + \frac{(0.5467\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26%, in all other cases;

- for 2020, one of the following rates:

- 1.75%, 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 \$6 million:

$$1.248\% + \frac{(0.502\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26%, in all other cases;

- for 2021, one of the following rates:

- 1.70%, 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 \$6.5 million:

$$1.2345\% + \frac{(0.4655\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26%, in all other cases;

- for 2022, one of the following rates:

- 1.65%, 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 \$7 million:

$$1.215\% + \frac{(0.435\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26%, in all other cases;

— for any year subsequent to 2022:

- 1.65%, 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 below the total payroll threshold applicable for the year:

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

- 4.26%, in all other cases.

In the above formula:

— A is the percentage obtained by the following formula:

$$1.65\% - B;$$

— B is the percentage obtained by the following formula:

$$2.61\% \div \left(\frac{\text{total payroll threshold applicable for the year} - 1}{\$1\,000\,000} \right)$$

Where the rate, expressed as a percentage, 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.

However, where the percentage rate determined by the formulas for determining the value of A and B of the formula for determining the rate applicable for the calculation of the Health Services Fund contribution payable for a year after 2022 has more than four decimals, only the first four are to be used and the fourth decimal must be increased by one unit if the fifth is greater than 4.

❑ Clarifications regarding the reduction of the Health Services Fund contribution for innovative SMBs

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 (HSF) was implemented further to the budget speech of June 4, 2014, for full-time jobs created in the natural and applied sciences sector.⁸²

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

⁸² Ministère des Finances du Québec, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp. 8-14.

The increase in a specified employer's payroll for a particular year is determined on the basis of the employer's base year.⁸³ Integrity rules provide that this increase may not exceed the increase in the total payroll of employers associated with each other at the end of the particular year, with the exception of employers whose base year is not ended before the particular year. This increase must then be allocated among the associated employers, in accordance with an agreement entered into by them.

Currently, to determine the amount of the reduction to which a specified employer may be entitled for a year, the reduction rate to be used is 1.5% for 2018 to 2020, where the employer is an eligible specified employer and, where the employer is a specified employer in sectors other than the primary and manufacturing sectors, 2.3% for 2018, 2.15% for 2019 and 2.05% for 2020, provided the employer's total payroll for the year is \$1 million or less.

Where the employer's total payroll for the year exceeds \$1 million, the reduction rate to be used corresponds to the rate determined by the following formula:

$$\text{Employer's HSF contribution rate for the year} - \left(\text{Employer's HSF contribution rate for the year} \times \frac{\text{Employer's total payroll for the year} - \$1\text{M}}{\$4\text{M}} \right)$$

■ Clarifications regarding the reduction of the Health Services Fund contribution for 2018

The *Act respecting the Régie de l'assurance maladie du Québec* will be amended so that the reduction of the Health Services Fund contribution for a specified employer for 2018 corresponds to the total of the reduction of the Health Services Fund contribution that would have been calculated for the year in respect of wages paid or deemed paid by the employer not later than the day of the budget speech and the reduction of the Health Services Fund contribution that would have been calculated for the year in respect of wages paid or deemed paid by the employer after the day of the budget speech, taking into account the following assumptions:

- except to determine the increase in the payroll of employers associated with each other at the end of 2018, the only wages paid or deemed paid to employees by the specified employer in 2018 were those paid or deemed paid to employees by the employer not later than the day of the budget speech or after that day, as applicable;
- the specified employer's Health Services Fund contribution rate for 2018 was that applicable to wages paid or deemed paid by the employer in that year not later the day of the budget speech or after that day, as applicable;

⁸³ The base year of a specified employer is the first year that ends after December 31, 2012 throughout which the employer carried on a business.

- except to determine the increase in the payroll of employers associated with each other at the end of 2018, the aggregate of wages paid or deemed paid to employees by the specified employer in the employer's base year was equal to the product of the multiplication of that aggregate by the ratio between the number of days in 2018 that precede the day following the day of the budget speech or that follow the day of the budget speech, as applicable, and 365;
- the amount that is allocated to the specified employer for 2018 on account of the increase in the payroll of employers associated with each other at the end of 2018 was equal to the product of the multiplication of the amount that is effectively allocated to the employer on that account by the ratio between the number of days in 2018 that precede the day following the day of the budget speech or that follow the day of the budget speech, as applicable, and 365.

■ **Clarifications regarding the reduction of the Health Services Fund contribution for 2019 and 2020**

Amendments will be made to the *Act respecting the Régie de l'assurance maladie du Québec* so that, for the purpose of calculating a specified employer's reduction rate for a year subsequent to 2018, reference is made to the new rate that will apply to wages paid or deemed paid by the employer for the year for the purpose of calculating the employer's contribution payable to the Health Services Fund.

For greater clarity, to take into account the gradual increase in the total payroll threshold applicable for a year, the denominator of the fraction in the formula for determining a specified employer's reduction rate, where the employer's total payroll exceeds \$1 million, will be replaced by \$4.5 million for 2019 and \$5 million for 2020.

□ **Other correlative amendments**

Correlative amendments will be made to replace, for a year subsequent to 2018, the reference to total payroll for a year under \$5 million by a reference to total payroll for a year below the total payroll threshold applicable for the year.⁸⁴

□ **Annual adjustment of the total payroll threshold applicable for a year after 2022**

To maintain SMBs' reduced rate for determining their contribution payable to the Health Services Fund, the total payroll threshold applicable for a year for establishing whether a specified employer is eligible for a reduced rate in determining the employer's contribution payable to the Health Services Fund will be automatically adjusted each year as of 2023.

⁸⁴ See note 80.

Thus, the total payroll threshold applicable for a particular year after 2022 will correspond to the product obtained by multiplying \$7 million by the ratio between the sum of the average of weekly salaries and wages of the Industrial Composite in Québec as established by Statistics Canada for each of the 12 months preceding July 1 of the year preceding the particular year and the same sum for each of the 12 months preceding July 1, 2021.

Where the result obtained further to this multiplication is not a multiple of 100 000, it will be adjusted to the nearest multiple of 100 000 or, if it is equidistant from two multiples of 100 000, to the nearest higher multiple of 100 000.

3.1.2 Standardization of the tax rates for SMBs

In Québec, the general tax rate applicable to corporations is 11.7%.⁸⁵

A Canadian-controlled private corporation whose paid-up capital is \$10 million or less receives a tax rate reduction of 3.7 percentage points on the first \$500 000 of annual income—the business limit—from an eligible business,⁸⁶ which lowers the tax rate applicable to the first \$500 000 from 11.7% to 8%. This reduced tax rate is also known as the small business deduction, or SBD.

To qualify for the SBD, a corporation must also meet a criterion pertaining to the number of remunerated hours, or be a primary and manufacturing sectors corporation.

Thus, a corporation receives the full SBD for a taxation year if, as applicable:

- during the taxation year, the remunerated hours of its employees totalled at least 5 500 hours;
- during the previous taxation year, the remunerated hours of its employees and those of the corporations with which it was associated totalled at least 5 500 hours.

A corporation's SBD rate is reduced linearly, where the total number of remunerated hours is between 5 500 hours and 5 000 hours, and reaches zero when the total does not exceed 5 000 hours.

A corporation is a "primary and manufacturing sectors corporation" for a taxation year if over 25% of its activities consist of primary and manufacturing sectors activities. A corporation whose proportion of primary and manufacturing sectors activities reaches 50% qualifies for the full SBD. The corporation's SBD rate is reduced linearly, where its proportion of primary and manufacturing sectors activities is between 25% and 50%, and reaches zero at 25%.

⁸⁵ This tax rate will decrease to 11.6% in 2019; subsequently, it will be 11.5%.

⁸⁶ The \$500 000 business limit is gradually reduced if the corporation's paid-up capital and that of the corporations with which it is associated is between \$10 million and \$15 million. It is eliminated when paid-up capital reaches \$15 million.

A primary and manufacturing sectors corporation may also claim the additional deduction for primary and manufacturing sectors SMBs, which can reduce the corporation's tax rate on its income qualifying for the SBD by four percentage points, lowering the tax rate on such income to 4%.

Such a corporation whose proportion of primary and manufacturing sectors activities is 50% or more qualifies for the full additional deduction for primary and manufacturing sectors SMBs. The rate of the additional deduction is reduced linearly, where this proportion is between 25% and 50%, and reaches zero at 25%.

To further ease the tax burden on SMBs in sectors other than the primary and manufacturing sectors, and thus standardize the tax rates applicable to SMBs, the SBD rate will be gradually raised so that the tax rate applicable to the portion of a corporation's income qualifying for the SBD reaches 4% in 2021. Consequently, the rate of the additional deduction for primary and manufacturing sectors SMBs will be gradually reduced and the additional deduction will be eliminated in 2021.

□ Increase in the SBD rate and correlative reduction of the rate of the additional deduction for SMBs in the primary and manufacturing sectors

The 3.7% SBD rate will be raised so that the maximum rate available to a corporation is the following:

- for the period that begins on the day following the day of the budget speech and ends on December 31, 2018: 4.7%;
- for the period that begins on January 1, 2019 and ends on December 31, 2019: 5.6%;
- for the period that begins on January 1, 2020 and ends on December 31, 2020: 6.5%;
- as of January 1, 2021: 7.5%.

Consequently, the rate of the additional deduction for primary and manufacturing sectors SMBs will be reduced so that the maximum deduction rate available to corporations is 3% for the period that begins on the day following the day of the budget speech and ends on December 31, 2018, 2% for the period that begins on January 1, 2019 and ends on December 31, 2019 and 1% for the period that begins on January 1, 2020 and ends on December 31, 2020. The additional deduction for primary and manufacturing sectors SMBs will be eliminated as of January 1, 2021.

Taking into account the general corporate tax rate reduction already announced, the tax rates applicable to corporations that qualify for the full SBD and the full additional deduction for primary and manufacturing sectors SMBs will be as shown in the following table:

TABLE A.6

Minimum tax rate applicable to income eligible for the SBD

(per cent)

	Applicable rate				
	From January 1, 2018 to the day of the budget speech	From the day following the day of the budget speech to December 31, 2018	From January 1 to December 31, 2019	From January 1 to December 31, 2020	As of January 1, 2021
General tax rate	11.7	11.7	11.6	11.5	11.5
Maximum SBD rate ⁽¹⁾	-3.7	-4.7	-5.6	-6.5	-7.5
SMB's tax rate	8.0	7.0	6.0	5.0	4.0
Additional maximum deduction for primary and manufacturing sectors SMBs ⁽²⁾	-4.0	-3.0	-2.0	-1.0	—
TOTAL	4.0	4.0	4.0	4.0	4.0

(1) This rate is reduced linearly, where the number of remunerated hours of the corporation's employees is less than 5 500 hours but more than 5 000 hours, or where the proportion of the corporation's primary and manufacturing sectors activities is between 25% and 50%.

(2) This rate is reduced linearly, where the proportion of the corporation's primary and manufacturing sectors activities is between 25% and 50%.

The announced changes to the SBD rates and to the rate of the additional deduction for SMBs in the primary and manufacturing sectors will apply to taxation years of a corporation that end after the day of the budget speech.

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

Similarly, the rate of the additional deduction for primary and manufacturing sectors SMBs that will apply to the corporation for that taxation year will correspond to an average rate calculated taking into account the number of days in the taxation year included in each period and the rate of the additional deduction for primary and manufacturing sectors SMBs applicable to each of these periods.

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

This will also be the case of the terms and conditions pertaining to the additional deduction for primary and manufacturing sectors SMBs.

■ Instalment payments

A corporation's instalment payments may be adjusted, as applicable, in accordance with the usual rules, as of the first instalment that follows the day of the budget speech, to take into consideration the changes to the SBD rate and the rate of the additional deduction for primary and manufacturing sectors SMBs.

3.2 Replacement of the additional capital cost allowance of 35% by an additional capital cost allowance of 60%

At the time the March 2017 Québec Economic Plan⁸⁷ was tabled, an additional capital cost allowance of 35% was introduced to support businesses and encourage them to accelerate their investments to ensure their competitiveness.

Briefly, that additional capital cost allowance applies to manufacturing or processing equipment and general-purpose electronic data processing equipment acquired before April 1, 2019. It is available for a two-year period.

To encourage the continuation of such investments and further support businesses in their development efforts, an additional capital cost allowance of 60% will be introduced. It will replace the additional capital cost allowance of 35% introduced in March 2017. Accordingly, like the additional capital cost allowance of 35%, the additional capital cost allowance of 60% will be available for a two-year period and will apply to manufacturing or processing equipment and general-purpose electronic data processing equipment. The property in question must be new at the time of acquisition and be acquired before April 1, 2020.

3.2.1 Introduction of the additional capital cost allowance of 60%

The tax legislation will be amended to allow taxpayers to deduct, in the calculation of their business income for a taxation year, an amount corresponding to the additional capital cost allowance of 60% in respect of qualified property for that taxation year.⁸⁸ This additional amount will be granted for the taxation year in which qualified property is brought into use and the following year.

⁸⁷ Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2017-2018*, March 28, 2017, pp. A.35-A.37.

⁸⁸ The additional capital cost allowance will also apply, with the necessary adaptations, to such property acquired by partnerships.

❑ Qualified property

Qualified property, for the purposes of the additional capital cost allowance, will be property that is a machine or equipment acquired primarily for use in manufacturing and processing goods intended for sale or lease, namely, property in Class 53 of Schedule B to the *Regulation respecting the Taxation Act*.⁸⁹ Qualified property will also be composed of general-purpose electronic data processing equipment and systems software for that equipment, namely, property included in Class 50 of Schedule B to the *Regulation respecting the Taxation Act*.⁹⁰

The property must be new at the time of its acquisition and be acquired after the day of the budget speech but before April 1, 2020.

Moreover, it must be brought into service within a reasonable time of its acquisition and be used by the taxpayer mainly in Québec and in the course of carrying on a business for a period of at least 730 consecutive days after its use began, except in the case of loss, involuntary destruction by fire, theft or water, or a major breakdown.

❑ Terms for calculating the additional capital cost allowance

The additional capital cost allowance of 60% will be calculated in accordance with the same rules applicable to the additional capital cost allowance of 35%.

Accordingly, to determine the additional capital cost allowance amount that a taxpayer may claim for a taxation year in respect of qualified property, the taxpayer must first calculate the basic capital cost allowance amount, for the taxation year, for the capital cost allowance class to which the qualified property belongs. On the basis of that amount, the taxpayer must then calculate the additional capital cost allowance amount that may be deducted in the calculation of the taxpayer's income for that taxation year in respect of the property.

The basic capital cost allowance amount, for a taxation year, for the capital cost allowance class to which the qualified property belongs will be equal to 60% of the amount deducted on account of capital cost allowance by the taxpayer in the calculation of the taxpayer's income for the taxation year in respect of that class.

The additional capital cost allowance amount of the taxpayer, for a taxation year, in respect of the qualified property will be equal to the product obtained by multiplying the basic capital cost allowance amount, for the taxation year, for the capital cost allowance class to which the qualified property belongs by the fraction of the undepreciated capital cost (UCC) for the class that is attributable to the qualified property.

⁸⁹ Capital cost allowance at the rate of 50%, calculated according to the diminishing balance method of depreciation, is granted for property in this class.

⁹⁰ Capital cost allowance at the rate of 55%, calculated according to the diminishing balance method of depreciation, is granted for property in this class.

For the taxation year in which the property is brought into service, the fraction of the UCC for the class to which the qualified property belongs that is attributable to the property will correspond to the proportion that half of the capital cost⁹¹ of the qualified property is to the UCC for the class used to calculate capital cost allowance for the taxation year.

For the taxation year following that in which the property was brought into service, the fraction of the UCC for the class to which the qualified property belongs that is attributable to the property will correspond to the proportion that the portion of the UCC balance reasonably attributable to the qualified property is to the UCC of the class that was used to calculate capital cost allowance for the taxation year.

The portion of the UCC balance reasonably attributable to the qualified property for the taxation year will correspond to the amount by which the capital cost of the property exceeds the portion of capital cost allowance that the taxpayer claimed in the calculation of the taxpayer's income for the previous taxation year and that is proportionately attributable to the qualified property.

❑ Special tax

A taxpayer that claims the additional capital cost allowance in respect of qualified property and that does not use the property mainly in the course of carrying on a business for a period of at least 730 consecutive days after the property began to be used, or that does not use the property mainly in Québec during that period, will be liable for a special tax.

This special tax will correspond to the total value of the tax assistance attributable to the additional capital cost allowance in respect of the qualified property for each of the taxation years in which the taxpayer deducted an amount on account of the additional capital cost allowance in the calculation of the taxpayer's income.

The value of this tax assistance for a taxation year will correspond to the amount by which the tax that would otherwise have been payable by the taxpayer for the taxation year, had the taxpayer not deducted the amount on account of the additional capital cost allowance in respect of the property, exceeds the tax that was payable by the taxpayer for the taxation year.

However, this special tax will not be payable if the qualified property is acquired within the 730-day period by a person with which the taxpayer does not deal at arm's length and in circumstances in which a transfer, amalgamation or winding-up⁹² occurred, provided the qualified property is used by the acquirer mainly in Québec and in the course of carrying on a business for the remainder of the 730-day period.

⁹¹ Since the half-year rule applies in determining the capital cost allowance that a taxpayer may claim in respect of property included in Class 50 or Class 53 of Schedule B to the *Regulation respecting the Taxation Act*, only half of the capital cost will be used to calculate the proportion. Because of this rule, the capital cost allowance that may be claimed for the taxation year in which property became available for use is equal to half of the amount that could otherwise be claimed in respect of the property.

⁹² These circumstances are those set forth in section 130R149 of the *Regulation respecting the Taxation Act*.

3.2.2 Elimination of the additional capital cost allowance of 35%

As a consequence of the introduction of the additional capital cost allowance of 60%, the additional capital cost allowance of 35% will be eliminated as of the day following the day of the budget speech.

Accordingly, only property that meets the conditions otherwise set forth for claiming the additional capital cost allowance of 35% and that is acquired not later than the day of the budget speech may qualify for the additional capital cost allowance of 35% for the remainder of the period applicable to the qualified property.

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

As part of Budget Speech 2013-2014,⁹³ a tax holiday for large investment projects was introduced.

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

Similarly, a partnership that carries out a large investment project in Québec may, under certain conditions, claim a holiday from HSF contributions regarding the portion of wages paid to its employees that is attributable to the time they devote to eligible activities relating to the project. A corporation that is a member of the partnership may receive a tax holiday in respect of its share of the income from eligible activities of the partnership relating to the project.

This tax holiday lasts 15 years. The tax assistance relating to a large investment project may not exceed 15% of the total qualified capital investments relating to the project, determined on the date that the tax-free period begins.

To qualify as a large investment project, an investment project must, among other things, pertain to activities in the following sectors: manufacturing,⁹⁴ wholesale trade,⁹⁵ warehousing and storage⁹⁶ or data processing, hosting and related services.⁹⁷

⁹³ Ministère des Finances et de l'Économie du Québec, *Budget 2013-2014 – Budget Plan*, November 20, 2012, pp. H.23-H.32.

⁹⁴ Statistics Canada, *North American Industry Classification System (NAICS) Canada 2017 Version 2.0*, Codes 31-33, available at: www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=118464, hereinafter, "NAICS."

⁹⁵ NAICS code 41.

⁹⁶ NAICS code 4931.

⁹⁷ NAICS code 518.

In addition, a corporation or partnership must meet a criterion requiring it to reach the capital investment threshold within a period of 60 months beginning on the date the initial qualification certificate is issued in respect of the investment project. On February 10, 2015,⁹⁸ the capital investment threshold that must be met for project qualification purposes became \$100 million⁹⁹ or \$75 million. In the latter case, all or substantially all of the investment project must be carried out in a designated region¹⁰⁰ and all or substantially all of the activities arising from the project must be carried out in such a region throughout the tax-free period.

To claim the tax holiday, a corporation or partnership must obtain an initial qualification certificate and annual certificates issued by the Minister of Finance. An application for an initial qualification certificate must be made before the investment project begins to be carried out and not later than December 31, 2020.

A corporation or partnership that obtained an initial qualification certificate in respect of a large investment project may, under certain conditions, request that the Minister of Finance amend the certificate in order to add a second investment project that builds on the large investment project in respect of which the initial qualification certificate¹⁰¹ was issued. The second investment project must involve sectors of activity otherwise eligible and is also subject to the requirement to reach an investment threshold of \$75 million or \$100 million, as applicable, within a 60-month period beginning on the date the amended initial qualification certificate is sent to the corporation. The second investment project is also subject to a tax assistance limit corresponding to 15% of total qualified capital investments relating to the project.¹⁰²

To encourage the carrying out of more projects with a structuring effect on the Québec economy, investment projects for the development of an eligible digital platform may, under certain conditions, be recognized for the purposes of the tax holiday for large investment projects.

⁹⁸ Ministère des Finances du Québec, *Information Bulletin* 2015-2, February 10, 2015.

⁹⁹ The capital investment threshold was initially \$300 million. It was reduced to \$200 million in *Information Bulletin* 2013-10, October 7, 2013.

¹⁰⁰ Designated regions are the territories included in the following administrative regions, regional county municipalities (RCMs) and urban agglomeration: Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie-Îles-de-la-Madeleine, Nord-du-Québec and Saguenay-Lac-Saint-Jean administrative regions; Antoine-Labelle, Charlevoix-Est, Granit, Haut-Saint-François and Mékinac RCMs; urban agglomeration of La Tuque; Pontiac and Vallée-de-la-Gatineau RCMs.

¹⁰¹ Applications for amendment of an initial qualification certificate must be filed with the Minister of Finance before the second investment project has begun to be carried out, before January 1, 2021 and not later than the date the application for the first annual certificate was made for the first investment project.

¹⁰² The terms of application of the tax holiday and the tax assistance limit, further to recognition of a second investment project by the Minister of Finance, are described in greater detail in subsection 2.4 of Section A of Additional Information 2017-2018 of the Ministère des Finances du Québec.

❑ New sector of activity

The *Act respecting the sectoral parameters of certain fiscal measures*¹⁰³ will therefore be amended to add the development of eligible digital platforms to the sectors of activity that an investment project must involve in order to be recognized as a large investment project.

The term “digital platform” may be defined in a number of ways. For the purposes of the tax holiday for large investment projects, an eligible digital platform will mean a computer environment that enables content management or use, that serves as an intermediary in accessing information, services or property supplied or edited by the corporation or partnership, or by a third party, and that is not a tax-exempt platform.

Thus, the Minister of Finance may issue an initial qualification certificate to a corporation or partnership in respect of its investment project for the development of an eligible digital platform, where the Minister is of the opinion that total capital investments attributable to the carrying out of the investment project will reach the applicable investment threshold within the start-up period,¹⁰⁴ and where the corporation or partnership has demonstrated that the activities arising from the investment project will be carried out in Québec.

■ Excluded platform

For the purposes of the tax holiday for large investment projects, an excluded platform will mean a platform that hosts content encouraging violence, sexism or discrimination, supporting an illegal activity, intended for an adult audience and comprising explicit sex scenes or proposing online games.

For greater clarity, these exclusions will apply to all content on the platform, including third-party content and advertising.

■ Clarifications regarding the income tax holiday

To claim the tax holiday for large investment projects, a corporation or partnership must obtain, for each taxation year or fiscal period, an annual certificate in respect of its large investment project. This certificate confirms, among other things, that the project has been recognized, for the year, as a large investment project and that the activities arising from the project are carried out in Québec.

Eligible activities pertaining to a large investment project for the development of an eligible digital platform will mean activities relating to the use of the eligible digital platform. Accordingly, activities that consist in selling property or offering services via the digital platform will not be eligible activities pertaining to the large investment project.

¹⁰³ CQLR, chapter P-5.1.

¹⁰⁴ *Act respecting the sectoral parameters of certain fiscal measures*, Schedule E, s. 8.1, definition of “start-up period.”

Consequently, the income tax holiday will apply only to income that is reasonably attributable to the use of the eligible digital platform. For greater clarity, this income will include fees and royalties charged by the operator of the eligible digital platform to use the platform as an intermediary, the portion of subscription fees respecting the eligible digital platform that may reasonably be considered to have been paid for the use of the platform, amounts paid by third parties to use the eligible digital platform as a gateway to their website, and other such amounts.

The portion of subscription fees paid for services received or property acquired, other than the right to use the platform, will not be eligible for the income tax holiday.

■ **Clarifications regarding the holiday from employer HSF contributions**

The HSF contribution holiday applies to wages paid to employees by the corporation or partnership in relation to the portion of their time devoted to eligible activities of the corporation or partnership pertaining to the large investment project.

Consequently, wages paid to employees of the corporation or partnership for activities relating to the maintenance and upgrade of digital platform components, support service, customer service relating to the use of the platform, and other, similar activities will give rise to the holiday from employer HSF contributions.

Wages paid to an employee by the corporation or partnership for the portion of the employee's time devoted to eligible activities relating to the large investment project and other activities of the corporation or partnership will not give rise to the holiday from employer HSF contributions.¹⁰⁵

Lastly, wages paid by the corporation or partnership to its employees whose tasks consist in developing the eligible digital platform will not give rise to the holiday from employer HSF contributions.

□ **Application date**

This change will apply to investment projects that begin to be carried out after the day of the budget speech.

3.4 **Enhancement of the refundable tax credit for on-the-job training periods**

The purpose of the credit for on-the-job training periods is to support the efforts of businesses that contribute to the development of the professional competence of students and apprentices.

¹⁰⁵ For example, this could be the case regarding wages paid to an employee for tasks that consist in offering customers a service pertaining to both the use of the eligible digital platform and the corporation's other services, such as the availability of products sold by the corporation. The portion of wages that is attributable to the carrying out of eligible activities relating to the large investment project cannot be isolated in this case.

Briefly, a taxpayer may, under certain conditions, claim the refundable tax credit for on-the-job training periods, where, among other things, a student serves a training period in a business carried on in Québec by the taxpayer or a partnership of which the taxpayer is a member (hereinafter, "eligible employer"). The rate of the tax credit is 24%, where the eligible employer is a corporation, and 12%, where the eligible employer is an individual.

To encourage employers to offer more training periods to Aboriginal persons and, consequently, increase their participation in the labour market, the rate of the refundable tax credit for on-the-job training periods will be raised in respect of such trainees.

In addition, the weekly qualified expenditure limit and the maximum hourly rate of the refundable tax credit will be increased for all existing categories of eligible trainees for the purposes of this tax credit.

Lastly, to encourage employers to offer more training periods in resource regions, the rate of the refundable tax credit for on-the-job training periods will be increased for qualified training periods served in these regions.

Aboriginal trainees

Under the existing tax legislation, an eligible trainee of an eligible employer at a particular time in a taxation year or fiscal period, as the case may be, means an individual who, at that time, is serving a qualified training period in an establishment of the employer located in Québec and who is:

- a person enrolled in the Workplace Apprenticeship Program established under the *Act to promote workforce skills development and recognition*,¹⁰⁶ administered by the Ministère du Travail, de l'Emploi et de la Solidarité sociale or, as the case may be, by the Kativik Regional Government (hereinafter, "apprentice trainee");
- an individual who is enrolled as a full-time student in an education program at the secondary, college or university level providing for one or more training periods totalling at least 140 hours during the course of the program (hereinafter, "trainee enrolled in an education program");
- an individual who is enrolled as a full-time student in a prescribed program offered by a recognized educational institution providing for one or more training periods totalling at least 140 hours during the course of the program (hereinafter, "trainee enrolled in a prescribed program").¹⁰⁷

¹⁰⁶ CQLR, chapter D-8.3.

¹⁰⁷ Prescribed programs are the following: a program approved by the Ministère de l'Éducation et de l'Enseignement supérieur in accordance with the section "A New Path in Vocational Education" of the Experimental Program for Offering a Greater Variety of Options to Young People in Vocational Education; a program that is an individualized path for learning in life skills and work skills education at the secondary level; and a program developed in accordance with the Sociovocational Integration Services program at the secondary level.

■ Rate of the tax credit

The basic rate of the refundable tax credit for on-the-job training periods is currently 24% for eligible employers that are corporations and 12% for eligible employers who are individuals.

These rates are raised to 32% and 16%, respectively, where the tax credit is claimed in respect of an eligible trainee who is a disabled person or an immigrant, as the case may be.

In the case of eligible trainees enrolled in an education program or a prescribed program, the basic rates and the enhanced rates of the tax credit are increased, so that:

- the basic rates are 40% for corporations and 20% for individuals;
- the enhanced rates are 50% for corporations and 25% for individuals.

However, an eligible employer may benefit from the enhanced rates of the tax credit in respect of a trainee enrolled in an education program or a prescribed program, for a taxation year, only if the eligible employer's qualified expenditure in respect of such a trainee is at least \$2 500 for at least three consecutive taxation years or, in the case of a partnership, for at least three consecutive fiscal periods.

The tax legislation will be amended so that an enhanced rate of 32% for corporations and 16% for individuals applies where an eligible employer makes a qualified expenditure in respect of an eligible trainee who is an Aboriginal person.

In addition, for the purposes of the refundable tax credit, the tax legislation will be amended to provide that an Aboriginal person at any time in an eligible training period means a person who, at that time, is:

- an Indian registered pursuant to the *Indian Act*,¹⁰⁸ or
- an Inuit beneficiary pursuant to the *Act respecting Cree, Inuit and Naskapi native persons*.¹⁰⁹

Lastly, the tax legislation will be amended to provide that the enhanced rates will be increased, where an eligible employer makes a qualified expenditure in respect of a trainee who is an Aboriginal person enrolled in an education program or a prescribed program, so as to raise:

- the enhanced rate of 32% to 50% for corporations;
- the enhanced rate of 16% to 25% for individuals.

¹⁰⁸ R.S.C., 1985, c. I-5.

¹⁰⁹ CQLR, chapter A-33.1.

However, an eligible employer may benefit from the enhanced rates of the tax credit in respect of a trainee who is an Aboriginal person enrolled in an education program or a prescribed program, for a taxation year, only if the eligible employer's qualified expenditure in respect of such a trainee is at least \$2 500 for at least three consecutive taxation years or, in the case of a partnership, for at least three consecutive fiscal periods.

❑ **Increase in the weekly limit and the maximum hourly rate**

Briefly, the tax credit for on-the-job training periods is calculated based on the qualified expenditure in respect of an eligible trainee. A qualified expenditure consists of salaries or wages paid to an eligible trainee as part of an eligible training period and salaries and wages paid to an eligible supervisor for the hours spent overseeing the trainee. However, the eligible expenditure is curtailed by a weekly limit and a maximum hourly rate.

■ **Weekly limit**

Under the existing tax legislation, the weekly qualified expenditure limit that applies to an eligible trainee is:

- \$750 per week, where the eligible trainee is a trainee enrolled in a prescribed program or the eligible trainee is a disabled person who is an apprentice trainee or a trainee enrolled in an education program;
- \$1 050 per week, where the eligible trainee is a disabled person who is enrolled in a prescribed program;
- \$600 per week, in the case of any other eligible trainee.

The tax legislation will be amended to raise the weekly qualified expenditure limits in respect of an eligible trainee who serves an eligible training period at any time in a taxation year or fiscal period, as the case may be, in an establishment of an eligible employer located in Québec.

More specifically, these weekly limits will be raised as follows:

- \$875 per week, where an eligible trainee is a trainee enrolled in a prescribed program, or the eligible trainee is a disabled person who is an apprentice trainee or a trainee enrolled in an education program;
- \$1 225 per week, where an eligible trainee is a disabled person who is enrolled in a prescribed program;
- \$700 per week, in the case of any other eligible trainee.

■ **Maximum hourly rate**

For the purpose of calculating the tax credit, the maximum hourly rates respecting the salaries or wages of an eligible trainee and of an eligible supervisor overseeing the eligible trainee as part of an eligible training period are \$18 and \$30, respectively.

The tax legislation will be amended to increase these hourly rates from \$18 to \$21 and from \$30 to \$35, respectively.

❑ Increase respecting resource regions

The tax legislation will be amended so that an enhanced rate of 32% for corporations and 16% for individuals applies where an eligible employer makes a qualified expenditure in respect of an eligible trainee who serves an eligible training period in an establishment, of the eligible employer, located in an eligible region.

The tax legislation will also be amended to provide that the enhanced rates of the tax credit will be increased in respect of an eligible trainee enrolled in an education program or a prescribed program who serves an eligible training period, in an establishment, of an eligible employer, located in an eligible region, so as to raise:

- the enhanced rate of 32% to 50% for corporations;
- the enhanced rate of 16% to 25% for individuals.

For the purposes of this amendment, the eligible regions will be the following resource regions:

- one of the following administrative regions described in the *Décret concernant la révision des limites des régions administratives du Québec*:¹¹⁰
 - administrative region 01 Bas-Saint-Laurent,
 - administrative region 02 Saguenay–Lac-Saint-Jean,
 - administrative region 08 Abitibi-Témiscamingue,
 - administrative region 09 Côte-Nord,
 - administrative region 10 Nord-du-Québec,
 - administrative region 11 Gaspésie–Îles-de-la-Madeleine;
- one of the following regional county municipalities:
 - Municipalité régionale de comté d'Antoine-Labelle,
 - Municipalité régionale de comté de La Vallée-de-la-Gatineau,
 - Municipalité régionale de comté de Mékinac,
 - Municipalité régionale de comté de Pontiac;
- the urban agglomeration of La Tuque, as described in section 8 of the *Act respecting the exercise of certain municipal powers in certain urban agglomerations*.¹¹¹

¹¹⁰ CQLR, chapter D-11, r.1.

¹¹¹ CQLR, chapter E-20.001.

❑ **Application date**

These amendments will apply to qualified expenditures incurred after the day of the budget speech in respect of eligible training periods beginning after that day.

3.5 Introduction of a refundable tax credit to encourage qualifying training for workers employed in SMBs

To remain competitive, Québec SMBs must ensure that they have a qualified workforce. The Québec labour market is changing and businesses are facing a labour shortage. Against this backdrop, it can be costly for many Québec SMBs to set aside time for their employees to develop their professional skills.

Consequently, a refundable tax credit will be introduced to encourage training for workers employed in SMBs.

Briefly, this refundable tax credit will enable qualified corporations to receive tax assistance of up to \$5 460 a year for each eligible employee who participates in eligible training.

This refundable tax credit will be intended for a qualified corporation or a corporation that is a member of a partnership, as applicable, that carries on an SMB whose payroll is less than \$7 million.

It will apply to eligible training expenditures that the qualified corporation or the partnership, as applicable, incurs after the day of the budget speech and before January 1, 2023.

The tax legislation will be amended to incorporate the terms and conditions of this refundable tax credit, described below.

❑ **Qualified corporation**

“Qualified corporation” will mean, for a taxation year, a corporation, other than an excluded corporation, that has an establishment in Québec and carries on a business in Québec.

A corporation, other than an excluded corporation, that is a member of a partnership that has an establishment in Québec and carries on a business in Québec will also be able to claim this refundable tax credit for a taxation year in which the partnership’s fiscal period ends, in proportion to its share of the partnership’s income or loss for the fiscal period.

■ **Excluded corporation**

“Excluded corporation” will mean:

- a corporation exempt from tax;
- a Crown corporation or a subsidiary wholly-owned by such a corporation.

❑ Eligible employee

“Eligible employee” of a qualified corporation or a partnership, as applicable, for a taxation year or a fiscal period, respectively, will mean an employee, other than an excluded employee, of an establishment, located in Québec, of the corporation or partnership.

In addition, the employee must meet the following conditions for the year or fiscal period, as applicable:

- the employee holds full-time employment involving a minimum of 26 hours of work per week, for an expected minimum duration of 40 weeks;
- the employee’s duties consist in undertaking or directly supervising activities of the qualified corporation or the partnership, as applicable, in an establishment, located in Québec, of the corporation or partnership.

■ Excluded employee

“Excluded employee” will mean:

- if the employer is a corporation, a specified shareholder¹¹² of the corporation or, if the corporation is a cooperative, a specified member¹¹³ of the corporation;
- if the employer is a partnership, a member of the partnership, a specified shareholder or a specified member, as applicable, of the member, an employee who is not dealing at arm’s length with the member of the partnership, or the specified shareholder or specified member, as the case may be;
- an employee in respect of whom it may reasonably be considered that one of the purposes for which the employee works for a qualified corporation or a partnership is to allow the qualified corporation or a corporation that is a member of the partnership, as applicable, to claim the refundable tax credit in respect of the employee;
- an employee in respect of whom it may reasonably be considered that the conditions of employment with a qualified corporation or a partnership have been changed mainly to allow the qualified corporation or a corporation that is a member of the partnership, as applicable, to claim the refundable tax credit or increase the amount of the tax credit in respect of the employee.

❑ Eligible training

“Eligible training” will mean training taken by an eligible employee during an eligible training period through a recognized educational institution.

¹¹² “Specified shareholder” of a corporation in a taxation year refers to a taxpayer who owns, directly or indirectly, at any time in the year, not less than 10% of the issued shares of any class of the capital stock of the corporation or of any other corporation that is related to the corporation.

¹¹³ “Specified member” of a corporation that is a cooperative in a taxation year means a member having, directly or indirectly, at any time in that year, at least 10% of the votes at a meeting of the members of the cooperative

The training may lead to the awarding of a diploma, although this is not an eligibility requirement for the purposes of the refundable tax credit.

■ Eligible training period

“Eligible training period” will refer to a period in the normal weekly work schedule of an eligible employee during which the employee is given time away from the employee’s usual duties to attend the eligible training.

In that regard, an eligible employee’s total eligible training periods will be limited to 520 hours for a taxation year or the fiscal period, as applicable, and an eligible employee’s weekly work schedule may not exceed 40 hours for the purpose of calculating the limit.

For greater clarity, the 520-hour limit need not be annualized if the taxation year or the fiscal period of the qualified corporation or the partnership, as applicable, that employs the eligible employee is less than 365 days.

■ Recognized educational institution

“Recognized educational institution” will mean an educational institution that is:

- a secondary-level or college-level educational institution under the authority of the Ministère de l’Éducation et de l’Enseignement supérieur;
- accredited for purposes of subsidies under section 77 of the *Act respecting private education*;¹¹⁴
- mentioned in the list established by the Minister of Higher Education, Research, Science and Technology¹¹⁵ under any of subparagraphs 1 to 3 of the first paragraph of section 56 of the *Act respecting financial assistance for education expenses*;¹¹⁶
- operated by a person holding a permit issued by the Minister of Education, Recreation and Sports under section 12 of the *Act respecting private education*, provided that it offers a vocational education or vocational training program referred to in Chapter I of that Act.

□ Eligible training expenditures

“Eligible training expenditures” of a qualified corporation or a partnership for a taxation year or a fiscal period, respectively, will mean wages calculated in accordance with the *Taxation Act* that the qualified corporation or the partnership incurs in respect of an eligible employee for the taxation year or fiscal period, as applicable, after the day of the budget speech and before January 1, 2023.

The wages must be attributable to an eligible training period and paid to an employee before the application for the refundable tax credit is filed.

¹¹⁴ CQLR, chapter E-9.1.

¹¹⁵ Currently, the Minister for Higher Education assumes the responsibilities of the Minister of Higher Education, Research, Science and Technology in that regard.

¹¹⁶ CQLR, chapter A-13.3.

In addition, eligible training expenditures will be limited to a maximum hourly rate of \$35. If an eligible employee is not remunerated on an hourly basis, the employee's hourly rate will be deemed to correspond to the ratio between the employee's annualized wages and 2 080 hours.

❑ Determination of the refundable tax credit

The refundable tax credit that:

- a qualified corporation may claim for a taxation year; or
- a corporation, other than an excluded corporation, that is a member of a partnership may claim, for a taxation year in which the partnership's fiscal period ends, in proportion to its share of the partnership's income or loss for the fiscal period;

will correspond to an amount equal to 30% of eligible training expenditures that the qualified corporation or the partnership, as applicable, paid to an eligible employee for the taxation year or the fiscal period, where the total payroll of the qualified corporation or the partnership for the taxation year or the fiscal period, as applicable, does not exceed \$5 million.

This 30% rate will be reduced linearly, where the total payroll exceeds \$5 million, reaching zero if the total payroll of the qualified corporation or the partnership for the taxation year or the fiscal period, as applicable, reaches \$7 million or more.

Thus, where a qualified corporation or a partnership has a total payroll of \$7 million or more for a taxation year or a fiscal period, as applicable, the qualified corporation or a corporation that is a member of a partnership may not claim the tax credit for the taxation year or the fiscal period.

■ Total payroll

"Total payroll" of a qualified corporation or a partnership for a taxation year or a fiscal period, respectively, will correspond to the total payroll determined as provided in the *Act respecting the Régie de l'assurance maladie du Québec*.¹¹⁷

For greater clarity, the total payroll of a qualified corporation or a partnership is determined by taking into account the payroll of corporations or partnerships with them, as the case may be.

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

The digital transformation of print media companies has become imperative at a time when Web giants have taken over a large share of the advertising revenue on which these companies' business models had long relied.

¹¹⁷ CQLR, chapter R-5.

In that regard, a digital adaptation assistance program—the Programme d’aide à l’adaptation numérique des entreprises de la presse d’information écrite¹¹⁸—which is administered by the Ministère de la Culture et des Communications, was introduced to stimulate the transformation of print media company business models by supporting the start or continuation of the companies’ digital shift.

This program is consistent with the Québec Digital Strategy¹¹⁹ and follows up on the announcement made at the time the March 2017 Québec Economic Plan¹²⁰ was tabled.

Similarly, to help safeguard Québec’s print media and maintain their original written content on general-interest news geared specifically to the Québec public, a refundable tax credit will be temporarily introduced to support the start or continuation of the digital conversion of print media company business models.

Briefly, this refundable tax credit will provide companies with tax assistance of up to \$7 million annually in respect of expenditures they incur after the day of the budget speech and before January 1, 2023 for the purpose of the digital transformation of their print media activities.

The terms of this new refundable tax credit are described below.

☐ Qualified corporation

The tax legislation will be amended so that “qualified corporation” means, for a taxation year, a corporation, other than an excluded corporation, that has an establishment in Québec, carries on a business in Québec and holds a qualification certificate issued by Investissement Québec for the year.

■ Excluded corporation

The tax legislation will be amended so that “excluded corporation” means:

- a corporation that is exempt from tax;
- a Crown corporation or a wholly-controlled subsidiary of such a corporation.

■ Qualification certificate

The *Act respecting the sectoral parameters of certain fiscal measures*¹²¹ (hereinafter, “sectoral act”) will be amended to provide that a corporation must obtain, for a taxation year, a qualification certificate issued by Investissement Québec confirming that, for the year, the company produced and disseminated a print or digital information medium having original written information content (hereinafter, “eligible medium”).

¹¹⁸ See <https://www.mcc.gouv.qc.ca/index.php?id=6131>.

¹¹⁹ See https://www.economie.gouv.qc.ca/objectifs/ameliorer/strategie-numerique/?no_cache=1.

¹²⁰ Ministère des Finances du Québec, *The Québec Economic Plan*, March 28, 2017, pp. B.293-B.296.

¹²¹ CQLR, chapter P-5.1.

Investissement Québec will indicate this eligible medium on the qualification certificate it issues to the corporation.

The eligible medium must consist in the production and daily or periodic dissemination, through a print publication, an information website or an information only mobile application, of original written content on general interest news geared specifically to the Québec public and covering a minimum of three information topics among the following:

- politics;
- the municipal sector;
- international news;
- culture;
- business and the economy;
- local interest news;
- miscellaneous news items.

To be eligible, a periodic medium must be produced and disseminated at least ten times per year.

The newsroom of the eligible medium must be located in the corporation's establishment located in Québec and be composed of journalists responsible for original written information content, which may include news reports, profiles or interviews, as well as analyses, columns, investigative reports, or editorials.

In that regard, the following will not be original written information content:

- content that comes from a news agency or another media company;
- specialized content on a type of personal, recreational or professional activity geared specifically to a group, association or category of individuals;
- content that is paid for by a third party.

In addition, advertising or promotional media, such as advertorials, or theme-based content on, for example, hunting and fishing, decoration or science, will not be eligible for the purposes of the refundable tax credit.

Part of the written content of an eligible medium may comprise, on an incidental basis, ineligible content listed previously, without disqualifying the medium for the purposes of the refundable tax credit.

Lastly, when a corporation files its first application for an annual qualification certificate with Investissement Québec, it must also demonstrate that the eligible medium has been produced and disseminated for 12 or more months prior to the filing of the application.

❑ **Qualified partnership**

The tax legislation will be amended to provide that “qualified partnership” means, for a fiscal period, a partnership that has an establishment in Québec, carries on a business in Québec and holds a qualification certificate issued by Investissement Québec for the fiscal period.

■ **Qualification certificate**

The sectoral act will be amended to provide that a partnership must obtain, for a fiscal period, a qualification certificate issued by Investissement Québec confirming that, for the fiscal period, the partnership produced and disseminated a print or digital information medium having original written information content.

All of the conditions listed previously in regard to a qualified corporation will apply to a qualified partnership, with the necessary adaptations.¹²²

❑ **Eligible digital conversion activities**

A print media company’s eligible digital conversion activities will mean those that pertain to the determinants of the company’s productivity, in contrast to the company’s operating activities.

More specifically, the sectoral act will be amended so that “eligible digital conversion activity” means the development of information systems or the integration of technology infrastructure and, to the extent that it is incidental to such a development or integration activity, any activity relating to the maintenance or upgrade of such information systems or technology infrastructure.

These activities will include the development of interactive decision aids (business modelling) and business imaging tools that show a company in its current state for data analysis purposes (business intelligence), but will not include the day-to-day operation of the aids and tools.

Moreover, to be eligible, an activity must be directly tied to the start or continuation of the digital conversion of the eligible medium specified on the annual qualification certificate issued to the corporation.

In this context, the following will not be eligible digital conversion activities:

- management or operation of computer systems, application or technology infrastructure;
- operation of a customer relations management service;
- management or operation of a marketing information system designed to raise the visibility of the medium and promote it to an existing or potential clientele;
- any other activity of a similar nature that could be called a management or operating activity for the purposes of the eligible medium.

¹²²

For readability purposes, only the situation of corporations will be dealt with, but the rules will nevertheless apply to partnerships, with the necessary adaptations. Specific reference will, however, be made to partnerships, where required.

❑ Eligible digital conversion costs

The tax legislation will be amended so that “eligible digital conversion costs” of a qualified corporation, for a taxation year, means costs incurred by the corporation for the year that:

- are reasonable in the circumstances;
- correspond to the total of amounts paid by the corporation for the year in respect of qualified wages of its employees, and expenditures related to an eligible digital conversion contract.

■ Qualified wages

The tax legislation will be amended so that “qualified wages,” for a taxation year, refers to the portion of wages calculated in accordance with the *Taxation Act* that a qualified corporation incurs, for that year, in respect of a qualified employee after the day of the budget speech and before January 1, 2023, and that is reasonably attributable to eligible digital conversion activities of an eligible medium that is specified on a qualification certificate issued to the corporation by Investissement Québec for that year.

The amount of qualified wages incurred by a qualified corporation for a taxation year must be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit attributable to the wages, in accordance with the usual rules.

■ Eligible employee

“Eligible employee” for a taxation year will mean an employee, other than an excluded employee, in respect of whom Investissement Québec issued a qualification certificate indicating that the employee is an eligible employee for all or part of the year.

In addition, to qualify as an eligible employee, an employee must report for work at an establishment of the qualified corporation situated in Québec, in accordance with the usual rules. For example, an eligible employee who reports for work both at an establishment of the qualified corporation situated in Québec and at another establishment of the corporation situated outside Québec is deemed to report for work at the establishment situated in Québec, if the employee does not report for work mainly at the corporation’s establishment situated outside Québec.¹²³

■ Excluded employee

“Excluded employee,” for a taxation year, will mean a specified shareholder of the corporation for the year¹²⁴ or, where the employer is a partnership, a member of the partnership, a specified shareholder of the member, an employee not dealing at arm’s length with the member of the partnership or the specified shareholder, as the case may be, for the fiscal period of the partnership.

¹²³ See, for example, the *Taxation Act*, s. 1029.8.36.0.3.79, 2nd para.

¹²⁴ See note 112.

■ **Certificate of an eligible employee**

The sectoral act will be amended to require a qualified corporation to obtain, for a taxation year, a qualification certificate for each employee in respect of whom it wishes to claim the refundable tax credit for wages it incurred in respect of the employee for the year.

A qualification certificate may be issued in respect of an employee for a taxation year of the qualified corporation only if, for the year:

- the employee held full-time employment involving a minimum of 26 hours of work per week, for an expected minimum duration of 40 weeks;
- at least 75% of the employee's duties consisted in directly undertaking or supervising eligible digital conversion activities.

■ **Expenditure related to an eligible digital conversion contract**

The tax legislation will be amended to provide that “expenditure related to an eligible digital conversion contract,” for a taxation year, means 80% of the portion of a qualified corporation's expenditure in respect of costs provided for in an eligible digital conversion contract in regard to the acquisition or lease of qualified property, the supply of eligible services, right of use or an eligible licence, as the case may be, incurred by the corporation after the day of the budget speech and before January 1, 2023, that is reasonably attributable to eligible digital conversion activities of an eligible medium specified on a qualification certificate issued to the corporation by Investissement Québec for that year.

However, in the case of the acquisition of qualified property under an eligible digital conversion contract, the property must be acquired before January 1, 2022.

The amount of such an expenditure incurred by a qualified corporation, for a taxation year, must be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit attributable to such wages, in accordance with the usual rules.

■ **Eligible digital conversion contract**

“Eligible digital conversion contract,” for a taxation year, will mean a contract in respect of which Investissement Québec issued a qualification certificate.

■ ***Acquisition or lease of qualified property***

Where a qualified corporation incurs an expenditure to acquire or lease qualified property under an eligible digital conversion contract, the property must not have been used, or acquired or leased to be used or leased, in any way whatsoever before being acquired or leased by the corporation.

Qualified property acquired or leased by a qualified corporation must be used by the qualified corporation exclusively for the carrying on of eligible digital conversion activities that are attributable, in whole or in part, to an eligible medium specified on a qualification certified issued by Investissement Québec. In addition, it must be thus used in the qualified corporation's establishment situated in Québec at which it produces and disseminates the eligible medium.

As regards, in particular, the acquisition of qualified property under an eligible digital conversion contract, the property must begin to be used, as described previously, within a reasonable time after it was acquired and continue to be so used for a minimum period of 730 days having begun at the time the property was acquired, unless the property ceases to be used by reason of loss, involuntary destruction by fire, theft or water, a major breakdown or obsolescence.

▪ ***Supply of eligible services***

Where a qualified corporation incurs an expenditure for the supply of eligible services under an eligible digital conversion contract, the services must consist of eligible digital conversion activities attributable, in whole or in part, to an eligible medium specified on a qualification certificate issued by Investissement Québec. In addition, the services must be in relation to the qualified corporation's establishment situated in Québec at which it produces and disseminates the eligible medium.

In that regard, services rendered to the corporation under an eligible digital conversion contract must be reasonably attributable to wages paid to employees of an establishment situated in Québec of the person or partnership that renders the services, or the services could be so attributed if the person or partnership had such employees

▪ ***Right of use or eligible licence***

Where, under an eligible digital conversion contract, a qualified corporation incurs an expenditure in relation to a right of use or a licence regarding the property of another person, the right of use or the licence must be attributable, in whole or in part, to the carrying on of eligible digital conversion activities in relation to an eligible medium specified on a qualification certificate issued by Investissement Québec. Moreover, the right of use or the licence must relate to the qualified corporation's establishment situated in Québec at which it produces and disseminates the eligible medium.

■ **Qualification certificate for an eligible digital conversion contract**

The sectoral act will be amended to require a qualified corporation to obtain a qualification certificate for each digital conversion contract in respect of which it wishes to claim the refundable tax credit in respect of an expenditure it incurs for a taxation year under such a contract.

A qualification certificate may be issued in respect of a digital conversion contract only if the contract pertains to one or more of the following elements:

- acquisition or lease of qualified property;
- supply of eligible services;
- right of use or an eligible licence.

Each of these elements will be eligible only if it relates to the start or continuation of the digital conversion of an eligible medium specified on the qualification certificate issued by the corporation and to the qualified corporation's establishment situated in Québec at which it produces and disseminates the eligible medium.

▪ ***Acquisition or lease of qualified property***

Property acquired or leased by a qualified corporation will qualify only if it is general-purpose data processing equipment and related system software, including ancillary data processing equipment, and of the application software required.

In addition, such property will qualify only if it is intended for use, in whole or in part, by the qualified corporation for the carrying on of eligible digital conversion activities in relation to an eligible medium specified on the qualification certificate issued by Investissement Québec.

▪ ***Supply of eligible services***

A service supplied to the qualified corporation will be eligible only if it is intended for use in the carrying on of an eligible digital conversion activity attributable, in whole or in part, to an eligible medium specified on the qualification certificate issued by Investissement Québec.

For example, eligible services could be the development of information systems, the integration of technology infrastructure, the development of interactive decision aids (business modelling) or the development of imaging tools that show a company in its current state for data analysis purposes (business intelligence).

▪ ***Right of use or eligible licence***

A right of use or a licence relating to property of another person will be eligible only if it is intended that the right of use or the licence be used, in whole or in part, by the qualified corporation in the carrying on of eligible digital conversion activities in relation to an eligible medium specified on the qualification certificate issued by Investissement Québec.

□ Determination of the refundable tax credit

The refundable tax credit that:

- a qualified corporation may claim for a taxation year; or
- a corporation, other than an excluded corporation, that is a member of a qualified partnership may claim for a taxation year in which the partnership's fiscal period ends, in proportion to its share of the qualified partnership's income or loss for the fiscal period;

will correspond to an amount equal to 35% of the lesser of:

- the eligible digital conversion costs incurred by the corporation or the partnership for the taxation year or fiscal period, as the case may be; or
- the annual limit on eligible digital conversion costs applicable to a taxation year or fiscal period, as the case may be.

The annual limit on eligible digital conversion costs applicable to a taxation year or a fiscal period, as the case may be, will correspond to \$20 million if the qualified corporation or qualified partnership, as the case may be, is not associated with any other qualified corporation or qualified partnership in the taxation year or fiscal period, as the case may be.

Where the qualified corporation or the qualified partnership, as the case may be, is associated with another qualified corporation or qualified partnership in the taxation year or fiscal period, as the case may be, the \$20 million must be shared between the qualified corporations and qualified partnerships, in accordance with the usual rules.

Thus, in general, the maximum amount of the refundable tax credit for a taxation year or a fiscal period, as the case may be, will be \$7 million.

❑ Other terms of application

For a qualified corporation to claim the refundable tax credit, the eligible digital conversion costs for a taxation year or a fiscal period, as the case may be, must have been paid at the time the application for the refundable tax credit is filed.

Moreover, the refundable tax credit, or part of it, as the case may be, that is attributable to the acquisition of qualified property by a qualified corporation or a qualified partnership, as the case may be, will be recovered by means of a special tax, in accordance with the usual rules, if the qualified property is disposed of before the end of the 730-day period having begun at the time the property was acquired, unless the property is disposed of by reason of loss, involuntary destruction by fire, theft or water, or a major breakdown.

The refundable tax credit, or part of it, as the case may be, will also be recovered by means of a special tax, in accordance with the usual rules, where a certificate issued by Investissement Québec for the purposes of the refundable tax credit is revoked. A special tax will also apply, in accordance with the usual rules, where an amount included in the eligible digital conversion costs is subsequently reimbursed to the qualified corporation.

Lastly, the tax legislation will be amended so that the person that makes the supply of eligible services may nevertheless claim the refundable tax credit for the development of e-business, to the extent that the conditions applicable to this tax credit are otherwise met.

3.7 Change to the refundable tax credit for film dubbing

The refundable tax credit for film dubbing applies to a film dubbing expenditure, which consists of a corporation's labour expenditure relating to certain services rendered by the corporation in Québec that are inherent in the process of dubbing film or television productions.

The refundable tax credit for film dubbing corresponds to an amount equal to 35% of a qualified film dubbing expenditure of a corporation for a taxation year.

Briefly, for a taxation year, this qualified expenditure is composed of, among other things, salaries or wages directly attributable to film dubbing incurred by a corporation in the year, and of salaries and wages incurred by the corporation in a taxation year preceding the year in which the corporation filed an application for a certificate, with the Société de développement des entreprises culturelles (SODEC), in respect of the dubbed film.

However, a qualified film dubbing expenditure of a corporation for a taxation year is limited to an amount corresponding to 45% of the consideration paid to the corporation for the performance of the dubbing contract.

Limiting the qualified labour expenditure of a corporation for a taxation year in this way causes problems when, for example, the person required to pay a consideration to the corporation for the performance of the dubbing contract does not make the payment in a timely fashion. Moreover, the limit undermines the competitiveness of Québec dubbing corporations.

Accordingly, the tax legislation will be amended to remove this limit corresponding to 45% of the consideration paid to corporations for the performance of the dubbing contract. This amendment will simplify the application of the refundable tax credit for film dubbing and further support dubbing activities carried out in Québec.

This amendment will apply to a qualified film dubbing expenditure of a corporation for a taxation year that begins after the day of the budget speech.

3.8 Changes to the refundable tax credit for Québec film or television production

3.8.1 Eligibility of online-only productions

In general, the refundable tax credit for Québec film or television production applies to the labour expenditure incurred by a qualified corporation that produces a Québec film¹²⁵ in respect of which the Société de développement des entreprises culturelles (SODEC) issued a certificate recognizing the film referred to in it as a qualified Québec film or television production.

The tax credit is equal to 40% or 32% of the qualified labour expenditure incurred to produce the film, in the case of a production that is not adapted from a foreign format, and to 36% or 28% of such an expenditure, in the case of a production that is adapted from a foreign format (hereinafter, “base rates”). However, the labour expenditure giving rise to the tax credit may not exceed 50% of the film’s production costs.

Thus, the 40% and 36% base rates apply to the labour expenditure related to the production of certain feature-length, medium-length or short films, certain productions intended for minors and certain documentaries, provided they are in French; this also applies to giant-screen films, regardless of the language.

Moreover, the 32% and 28% base rates apply to the production of other classes of eligible films.

¹²⁵ The term “film” includes a television program.

For the purposes of the tax credit, an eligible Québec film or television production is, among other things, a production that meets certain requirements concerning its exploitation.

For example, in the case of a film whose primary market is the television market, there must be an undertaking by a corporation that is the holder of a broadcasting licence issued by the Canadian Radio-television and Telecommunications Commission (hereinafter, “television broadcaster”) to broadcast it in Québec. However, for a film whose primary market is the theatrical market, there must generally be an undertaking by the holder of a distribution licence (hereinafter, “distributor”) that the film will be shown in Québec in a public performance venue primarily used for showing films of all classes.¹²⁶

In addition, the application for a favourable advance ruling in respect of a film must be filed with the undertaking by the television broadcaster or the distributor, as the case may be. Depending on the undertaking involved, the corporation must file, when applying for a qualification certificate, a document confirming the television broadcasting of the film in Québec or its distribution in theatres in Québec.

With the advent of online media, film production, broadcasting and consumption methods have changed greatly. An increasing number of productions are now online-only productions.

However, the existing legislation does not address this type of production broadcasting, online productions being qualified productions only if they are also broadcast on television or distributed in theatres.

To adapt the tax credit to the reality of online broadcasting and support the growth of Québec’s film and television industry, amendments will be made to the *Act respecting the sectoral parameters of certain fiscal measures*¹²⁷ (hereinafter, “sectoral act”).

More specifically, the sectoral act will be amended to provide that, where a film’s primary market is the online market:

- in the case of an eligible online video service of a supplier that is a television broadcaster, there must be an undertaking by the television broadcaster to make the film accessible in Québec on its eligible online video service;
- in the case of an eligible online video service of another supplier, there must be an undertaking by a holder of a general distributor’s licence¹²⁸ (hereinafter, “general distributor”) to exploit the film in Québec, as well as an undertaking by the supplier of the eligible online video service, in regard to the general distributor, to make the film accessible in Québec on that eligible online video service.

¹²⁶ Special rules apply in the case of giant-screen films.

¹²⁷ CQLR, chapter P-5.1.

¹²⁸ *Cinema Act* (CQLR, chapter C-18.1), s. 104.

In addition, the application for a favourable advance ruling in respect of the film must be filed with the undertaking by the supplier of the eligible online video service and, as the case may be, the undertaking by the general distributor. The corporation must also, at the time of the application for a qualification certificate, file a document, from the supplier of an eligible online video service, confirming the film's accessibility in Québec.

❑ Eligible online video service

An eligible online video service will be an online video service that carries other pre-screened or pre-qualified content, is accessible in Québec, has Québec as part of its target audience and is considered an eligible online service by the Canadian Audio-Visual Certification Office (CAVCO).¹²⁹

❑ Non-arm's length certificate

Access to the refundable tax credit for Québec film or television production has always been limited to independent producers, except for a five-year period from 1998 to 2003. Consequently, television broadcasters are not eligible for the tax credit.

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

In that regard, a corporation that, at any time in a taxation year for which it intends to claim the tax credit or in the 24-month period preceding the taxation year, is not dealing at arm's length with a television broadcaster is ineligible for the tax credit unless it holds, for that year, a non-arm's length certificate issued by SODEC.

A non-arm's length certificate issued to a corporation for a taxation year certifies that over 50% of the aggregate of its production costs for the last three taxation years, preceding the taxation year, during which a film was produced, were incurred in relation to films broadcast by a television broadcaster with which the corporation deals at arm's length.

This measure is designed to enable a corporation to claim the tax credit even though it does not deal at arm's length with a television broadcaster, but only in respect of eligible films it produces for corporations other than the television broadcaster with which it does not deal at arm's length.

In addition, remuneration paid directly or indirectly by a qualified corporation to a corporation that is a television broadcaster or that does not deal at arm's length with a television broadcaster, for services supplied in relation to any stage in the production of the film, is not part of the qualified corporation's labour expenditure for the purposes of the tax credit. However, the scope of this exclusion does not extend to the remuneration paid to a subcontractor not dealing at arm's length with a television broadcaster for services supplied exclusively at the post-production stage of the film.

¹²⁹ The list of acceptable online services pursuant to CAVCO Public Notice 2017-01 is available at: <https://www.canada.ca/en/canadian-heritage/services/funding/cavco-tax-credits/notices-bulletins/public-notice-2017-01/acceptable-online-services.html>.

To ensure that access to the tax credit remains limited to independent producers, the tax legislation and the sectoral act will be amended to take into account the broadening of the measure to include online-only productions.

Consequently, a corporation that, at any time in a taxation year or in the 24 months preceding the taxation year is a supplier of an eligible online video service or does not deal at arm's length with such a supplier will not be eligible for the tax credit unless it holds, for that year, a non-arm's length certificate issued by SODEC in respect of a supplier of an eligible online video service.

Such a non-arm's length certificate issued to a corporation for a taxation year will certify that over 50% of the aggregate of its production costs for the last three taxation years, preceding the taxation year, during which a film was produced, were incurred in relation to films broadcast by another supplier of an eligible online video service with which the corporation deals at arm's length.

Lastly, if the film is produced by a corporation that does not deal at arm's length with a supplier of an eligible online video service, the film must be initially broadcast by a supplier other than a supplier of an eligible online video service with which the corporation does not deal at arm's length.

Thus, a corporation will be eligible for the tax credit despite not dealing at arm's length with a supplier of an eligible online video service, but solely in respect of eligible films it produces for corporations other than the supplier of an online video service with which it does not deal at arm's length.

In addition, remuneration paid directly or indirectly by a qualified corporation to a supplier of an eligible online video services or a person that does not deal at arm's length with such a supplier, for services supplied in relation to any stage in the production of the film, will not be part of the qualified corporation's labour expenditure for the purposes of the tax credit. However, the scope of this exclusion does not extend to the remuneration paid to a subcontractor not dealing at arm's length with a supplier of an eligible online video service for services supplied exclusively at the post-production stage of the film.

For greater clarity, the general rules applicable to television broadcasters will continue to apply. Thus, a corporation that is a television broadcaster or that does not deal at arm's length with a television broadcaster will not be eligible for the tax credit, regardless of the broadcast method chosen for the film.

❑ Changes to the eligible classes of films

For the purposes of the tax credit, a film must, among other things, belong to an eligible class of films, in order to be considered an eligible Québec film or television production.

In that regard, documentaries comprising at least 30 minutes of programming or, in the case of a series, at least 30 minutes of programming per episode, except for documentaries intended for minors, which may comprise less, are one of the eligible classes of films.

Another eligible class of films comprises television variety programs, including games, quizzes and contests, to the extent that they meet certain requirements, such as comprising at least 30 minutes of programming for each of these programs.

However, the minutes of programming concept is out of step with the reality of online broadcasting.

Consequently, the sectoral act will be amended to provide that, in relation to these eligible classes of films, the minimum standard of "comprising at least 30 minutes of programming" can be broadened to include "20 minutes of audiovisual content."

More specifically, documentaries comprising at least 30 minutes of programming or at least 20 minutes of audiovisual content, or, in the case of a series, at least 30 minutes of programming per episode, or at least 20 minutes of audiovisual content, per episode, except for documentaries intended for minors, which may comprise less, will be eligible films. Moreover, television variety programs, including games, quizzes and contests, comprising at least 30 minutes of programming, or at least 20 minutes of audiovisual content, for each of these programs, to the extent that the other conditions are otherwise met, may be considered eligible films.

❑ Application date

These amendments will apply to a film or television production for which an application for an advance ruling, or an application for a qualification certificate if no application for an advance ruling was previously filed for the production, is filed with SODEC after the day of the budget speech.

3.8.2 Excluded amounts of assistance

Briefly, the refundable tax credit for Québec film or television production applies to the labour expenditure incurred by a qualified corporation that produces a Québec film in respect of which SODEC issued a qualification certificate recognizing the film to which it refers as an eligible Québec film or television production. However, the labour expenditure giving rise to the tax credit may not exceed 50% of film production costs.

The amount of labour expenditures and production costs for the purpose of calculating the tax credit must be reduced by any government assistance and non-government assistance, except an excluded amount, that a qualified corporation received or is entitled to receive.

In general, financial assistance from a public body in the cultural sector is an excluded amount of assistance that does not reduce the amount of such qualified expenditures.

❑ Changes to existing excluded amounts of assistance

Currently, the amount of any financial contribution paid by a public body that holds a broadcasting licence issued by the Canadian Radio-television and Telecommunications Commission¹³⁰ and the amount of financial assistance granted by the National Film Board of Canada¹³¹ are both excluded amounts of assistance for the purposes of the refundable tax credit for Québec film or television production. However, it seems that these two exclusions are too narrow in scope and do not allow the objective of this measure to be achieved.

To ensure the ongoing complementarity of the various sources of funding of the cultural sector, changes will be made to these two exclusions so that the following amounts of assistance are excluded for the purposes of the refundable tax credit for Québec film or television production:

- the amount of any financial contribution paid by a public body that holds a broadcasting licence issued by the Canadian Radio-television and Telecommunications Commission or a similar foreign licence;
- the amount of financial assistance granted by the National Film Board of Canada, and the amount corresponding to the fair market value of assistance granted by that body in the form of property or services.

These changes will apply to amounts paid or granted after the day of the budget speech.

❑ Addition of Eurimages

Eurimages is the cultural support fund of the Council of Europe and aims to support co-productions between its member states. It participates in the promotion of independent film by granting financial assistance to certain films. On March 13, 2017, Canada became the first non-European country to become a member of Eurimages.

Consequently, the tax legislation will be amended to add financial assistance granted by Eurimages to the list of excluded amounts of assistance for the purposes of the refundable tax credit for Québec film and television production.

This amendment will apply to financial assistance granted after March 12, 2017.

3.9 Change to the refundable film production services credit

The refundable film production services tax credit applies, in general, to eligible production costs relating to the various stages of making a foreign production or a Québec production that, for example, does not satisfy the Québec content criteria to be met in order to claim the refundable tax credit for Québec film or television production.

¹³⁰ *Taxation Act*, s. 1029.6.0.0.1, 2nd para., subpara. c, subpara. ix.

¹³¹ *Ibid.*, s. 1029.6.0.0.1, 2nd para., subpara. c, subpara. iii.

In general, the basic tax credit is calculated at a rate of 20% on the aggregate of eligible production costs incurred by a qualified corporation in Québec and attributable to the various stages of making an eligible production. Eligible production costs correspond to the total of the qualified labour cost and the cost of qualified property.

The increase for computer-aided special effects and animation, in respect of a qualified production, is calculated at a rate of 16% on the qualified labour cost, provided the cost is directly attributable to activities related to the creation of computer-aided special effects and animation for use in the qualified production.

Briefly, to be recognized as a qualified production, a film must, among other things, belong to an eligible class of films. One of the eligible classes of films consists of documentaries comprising at least 30 minutes of programming or, in the case of a series, at least 30 minutes of programming per episode, except for documentaries intended for minors, which may comprise less.

However, it seems that a required length of at least 30 minutes is less suited to virtual reality documentaries.

Consequently, the *Act respecting the sectoral parameters of certain fiscal measures*¹³² will be amended so that a virtual reality documentary may comprise less than 30 minutes of programming or, in the case of a series, less than 30 minutes of programming per episode.

In that regard, "virtual reality" will mean a technology that provides interactive, real-time simulation through the computerized generation of synthesis images and a virtual environment in which a person can become fully immersed, replacing the real world by a virtual world and virtual objects. Virtual reality can also be more widely applied to all sensory channels.

This amendment will apply to qualified productions for which an application for an approval certificate is filed with SODEC after the day of the budget speech.

3.10 Change to the refundable tax credit for the production of multimedia events or environments presented outside Québec

The purpose of the refundable tax credit for the production of multimedia events or environments presented outside Québec is to support the international growth potential of certain Québec companies.

Briefly, a qualified corporation may, under certain conditions, claim a refundable tax credit equal to 35% of qualified labour expenditures it incurs to produce a qualified production. However, qualified labour expenditures for the purposes of this tax credit may not exceed 50% of production costs.

In addition, the refundable tax credit that may be claimed in respect of a qualified production is limited to \$350 000. If the qualified production is co-produced, the \$350 000 limit must be distributed to each of the co-producers based on their respective shares of production costs.

¹³² CQLR, chapter P-5.1.

To further support the international growth potential of Québec companies carrying out their activities in the production of multimedia events or environments on the international stage, the tax legislation will be amended to remove the \$350 000 limit.

This amendment applies to qualified productions for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was previously filed for the production, is submitted to SODEC after the day of the budget speech.

3.11 Extension of and changes to the refundable tax credit for the production of ethanol in Québec

To foster the diversification of Québec's energy supplies, the refundable tax credit for the production of ethanol in Québec was introduced as part of the April 21, 2005 budget speech.¹³³

Briefly, this tax credit is granted for a taxation year to a qualified corporation in respect of its eligible production of ethanol. The eligible production of ethanol of a qualified corporation for a particular month means the number of litres of eligible ethanol that the qualified corporation produces in Québec, that is sold in Québec to the holder of a collection officer's permit issued under the *Fuel Tax Act* who takes possession of the ethanol in that month, and that is intended for Québec.

The tax credit that may be claimed by a qualified corporation for a taxation year is determined, for each month in the taxation year, taking into account the corporation's eligible production of ethanol in that month and a variable rate tied to the average monthly price of crude oil. The maximum rate of the tax credit for a particular month is \$0.185 per litre. No tax credit is granted for a particular month if the average monthly price of crude oil is equal to or greater than US\$65. Moreover, the refundable tax credit that may be claimed by a qualified corporation in respect of its eligible production of ethanol may not exceed its monthly ceiling on the production of ethanol, which, for a particular month, corresponds to the product obtained by multiplying 345 205 litres by the number of days in the month.

The eligibility period of the refundable tax credit for the production of ethanol in Québec ends on March 31, 2018.

Biofuels may help achieve the objectives of Québec's 2030 Energy Policy,¹³⁴ which, among other things, aims to reduce the consumption of petroleum products by 40%.

The government therefore wants to promote the production and consumption of biofuels in Québec as part of its incipient energy transition. Against this backdrop, the refundable tax credit for the production of ethanol in Québec will be extended for five years. Moreover, to simplify the application of the tax credit and improve the predictability of the assistance qualified corporations may obtain, a fixed rate will be used to calculate the tax credit. Lastly, the monthly ceiling on the production of ethanol will be raised.

¹³³ Ministère des Finances du Québec *Budget 2005-2006 – Additional Information on the Budgetary Measures*, section 1, April 21, 2005, pp. 91-96.

¹³⁴ See <https://politiqueenergetique.gouv.qc.ca/home/?lang=en>.

☐ Extension of the eligibility period

Accordingly, the tax legislation will be amended so that the eligibility period for the refundable tax credit for the production of ethanol in Québec ends on March 31, 2023.

☐ Change to the calculation of the refundable tax credit

The tax legislation will also be amended to provide that the refundable tax credit for the production of ethanol in Québec will be calculated at a fixed rate of \$0.03 per litre as of April 1, 2018.

Consequently, for the taxation year of a qualified corporation that includes March 31, 2018, the qualified corporation's refundable tax credit for the production of ethanol in Québec will be calculated, in respect of its eligible production of ethanol for each of the months in the part of the taxation year that precedes April 1, 2018, by applying the variable rate determined for each of these months, taking into account, in particular, the average monthly price of crude oil, and, in respect of its eligible production of ethanol for each of the months in the part of the taxation year that follows March 31, 2018, by applying a fixed rate of \$0.03 per litre.

☐ Change to the monthly ceiling on the production of ethanol

The monthly ceiling on the production of ethanol for a qualified corporation will be increased as of April 1, 2018 so that, for a particular month beginning after March 31, 2018, it is equal to the product obtained by multiplying 821 917 litres by the number of days in the particular month.

Consequently, for the taxation year of the qualified corporation that includes March 31, 2018, the corporation's monthly ceiling on the production of ethanol for each of the months in the part of the taxation year that precedes April 1, 2018 will be equal to the product obtained by multiplying 345 205 litres by the number of days in the month. Its monthly ceiling on the production of ethanol for each of the months in the part of the taxation year that follows March 31, 2018 will be equal to the product obtained by multiplying 821 917 litres by the number of days in the month.

☐ Other terms

Briefly, where a qualified corporation's taxation year begins on a day in a calendar month other than the first day of that month, the tax legislation provides that the term "month," for the purpose of calculating the tax credit, corresponds to any period that begins on that day in a calendar month and that ends immediately before the same day in the following month.

Thus, a qualified corporation's refundable tax credit, for a particular month including March 31, 2018 but not ending on that day, will be calculated, for the part of the month that ends on March 31, 2018, by multiplying the qualified corporation's eligible production of ethanol for that part of the month by the rate determined taking into account the average monthly price of crude oil for that part of the month, according to the terms and conditions applicable before April 1, 2018. The corporation's monthly ceiling on the production of ethanol will be determined for that part of the month and will be equal to the product obtained by multiplying 345 205 litres by the number of days in that part of the month.

Similarly, the qualified corporation's refundable tax credit for the other portion of that month that begins on April 1, 2018 will be calculated by multiplying the qualified corporation's eligible production of ethanol for the other portion of the month by a rate of \$0.03 per litre. The corporation's monthly ceiling on the production of ethanol for the other part of the month will be equal to the product obtained by multiplying 821 917 litres by the number of days in that other part of the month.

Lastly, since eligible ethanol produced by a qualified corporation may be considered an eligible production of ethanol only as of the date on which the purchaser takes possession of it, where the taking of possession of litres of eligible ethanol produced by the qualified corporation after March 17, 2011 but before April 1, 2018 occurs after March 31, 2018 but before April 1, 2023, the amount of the tax credit that may be obtained by the qualified corporation in respect of these litres of eligible ethanol included in an eligible production of ethanol will be calculated by applying a rate of \$0.03 per litre.

However, the refundable tax credit may not be claimed in respect of eligible ethanol produced by a qualified corporation before April 1, 2023 of which possession is taken after March 31, 2023.

❑ Other change

A corporation that files an application for an initial qualification certificate in respect of the tax holiday for large investment projects¹³⁵ with the Minister of Finance after the day of the budget speech will not be able to claim the refundable tax credit for the production of ethanol in Québec in respect of activities stemming from the carrying out of its large investment project.

3.12 Extension of and changes to the refundable tax credit for cellulosic ethanol production in Québec

To foster increased ethanol production in Québec, the refundable tax credit for cellulosic ethanol production in Québec was introduced as part of the March 7, 2011 budget speech.¹³⁶

¹³⁵ This measure is provided for in Chapter I of Title VII.2.3.1 of Book IV of Part I of the *Taxation Act*.

¹³⁶ Ministère des Finances du Québec, *Budget 2011-2012 – Budget Plan*, March 17, 2011, pp. J.13-J.19.

Briefly, this tax credit is granted for a taxation year to a qualified corporation in respect of its eligible production of cellulosic ethanol. The eligible production of cellulosic ethanol of a qualified corporation for a particular month means the number of litres of eligible cellulosic ethanol that the qualified corporation produces in Québec, that is sold in Québec to the holder of a collection officer's permit issued under the *Fuel Tax Act* who takes possession of the cellulosic ethanol in that month, and that is intended for Québec.

The tax credit that may be claimed by a qualified corporation for a taxation year is determined, for each month in the taxation year, taking into account the corporation's eligible production of cellulosic ethanol in that month and a variable rate tied to the average monthly market price of ethanol. The maximum rate of the tax credit for a particular month is \$0.15 per litre. No tax credit is granted for a particular month if the average monthly market price of ethanol is equal to or greater than US\$3.1333. Moreover, the refundable tax credit that may be claimed by a qualified corporation in respect of its eligible production of cellulosic ethanol may not exceed its monthly ceiling on the production of cellulosic ethanol, which, for a particular month, corresponds to the product obtained by multiplying 109 589 litres by the number of days in the month.

The eligibility period of the refundable tax credit for the production of cellulosic ethanol in Québec ends on March 31, 2018.

As with the changes announced regarding the refundable tax credit for the production of ethanol in Québec,¹³⁷ the refundable tax credit for cellulosic ethanol production in Québec will be extended five years. The terms for calculating the tax credit will be changed so that a fixed rate is used to calculate it, and the monthly ceiling on the production of cellulosic ethanol will be raised.

❑ Extension of the eligibility period

Accordingly, the tax legislation will be amended so that the eligibility period for the refundable tax credit for cellulosic ethanol production in Québec ends on March 31, 2023.

Consequently, to be included in the eligible production of cellulosic ethanol of a qualified corporation for a particular month, eligible cellulosic ethanol must, in particular, be produced after March 17, 2011 and before April 1, 2023, and the purchaser must take possession of it in the particular month, before April 1, 2023.

❑ Change to the calculation of the refundable tax credit

The tax legislation will also be amended to provide that the refundable tax credit for cellulosic ethanol production in Québec will be calculated at a fixed rate of \$0.16 per litre as of April 1, 2018.

¹³⁷ See subsection 3.11.

Consequently, for the taxation year of a qualified corporation that includes March 31, 2018, the qualified corporation's refundable tax credit for cellulosic ethanol production in Québec will be calculated, in respect of its eligible production of cellulosic ethanol for each of the months in the part of the taxation year that precedes April 1, 2018, by applying the variable rate determined for each of these months, taking into account, in particular, the average monthly market price of ethanol, and, in respect of its eligible production of cellulosic ethanol for each of the months in the part of the taxation year that follows March 31, 2018, by applying a fixed rate of \$0.16 per litre.

❑ Change to the monthly ceiling on the production of cellulosic ethanol

The monthly ceiling on the production of cellulosic ethanol for a qualified corporation will be increased as of April 1, 2018 so that, for a particular month beginning after March 31, 2018, it is equal to the product obtained by multiplying 821 917 litres by the number of days in the particular month.

Consequently, for the taxation year of a qualified corporation that includes March 31, 2018, the corporation's monthly ceiling on the production of cellulosic ethanol for each of the months in the part of the taxation year that precedes April 1, 2018 will be equal to the product obtained by multiplying 109 589 litres by the number of days in the month. Its monthly ceiling on the production of cellulosic ethanol for each of the months in the part of the taxation year that follows March 31, 2018 will be equal to the product obtained by multiplying 821 917 litres by the number of days in the month.

❑ Other terms

Briefly, where a qualified corporation's taxation year begins on a day in a calendar month other than the first day of that month, the tax legislation provides that the term "month," for the purpose of calculating the tax credit, corresponds to any period that begins on that day in a calendar month and that ends immediately before the same day in the following month.

Thus, the qualified corporation's refundable tax credit, for a particular month including March 31, 2018 but not ending on that day, will be calculated, for the part of the month that ends on March 31, 2018, by multiplying the qualified corporation's eligible production of cellulosic ethanol for that part of the month by the rate determined taking into account the average monthly market price of ethanol for that part of the month, according to the terms and conditions applicable before April 1, 2018. The corporation's monthly ceiling on the production of cellulosic ethanol will be determined for that part of the month and will be equal to the product obtained by multiplying 109 589 litres by the number of days in that portion of the month.

Similarly, the qualified corporation's refundable tax credit for the other part of that month that begins on April 1, 2018 will be calculated by multiplying the qualified corporation's eligible production of cellulosic ethanol for the other part of the month by a rate of \$0.16 per litre. The corporation's monthly ceiling on the production of cellulosic ethanol for the other part of the month will be equal to product obtained by multiplying 821 917 litres by the number of days in the other part of the month.

Lastly, since eligible cellulosic ethanol produced by a qualified corporation may be considered an eligible production of cellulosic ethanol only as of the date on which the purchaser takes possession of it, where the taking of possession of litres of eligible cellulosic ethanol produced by the corporation after March 17, 2011 but before April 1, 2018 occurs after March 31, 2018 but before April 1, 2023, the amount of the tax credit that may be obtained by the qualified corporation in respect of these litres of eligible cellulosic ethanol included in an eligible production of cellulosic ethanol will be calculated by applying a rate of \$0.16 per litre.

❑ Other change

A corporation that files an application for an initial qualification certificate in respect of the tax holiday for large investment projects¹³⁸ with the Minister of Finance after the day of the budget speech will not be able to claim the refundable tax credit for cellulosic ethanol production in Québec in respect of activities stemming from the carrying out of its large investment project.

3.13 Extension of and changes to the refundable tax credit for the production of biodiesel fuel in Québec

To facilitate the rollout of the key directions set forth in the 2030 Energy Policy¹³⁹ tabled by the Québec government on April 7, 2016, the refundable tax credit for the production of biodiesel fuel in Québec was introduced as part of the tabling of the March 2017 Québec Economic Plan.¹⁴⁰

Briefly, this tax credit is granted for a taxation year to a qualified corporation in respect of its eligible production of biodiesel fuel. The eligible production of biodiesel fuel of a qualified corporation for a particular month means the number of litres of biodiesel fuel that the corporation produces in Québec, that is sold in Québec to the holder of a collection officer's permit issued under the *Fuel Tax Act* who takes possession of the biodiesel fuel in that month, and that is intended for Québec.

The tax credit that may be claimed by a qualified corporation for a taxation year is determined, for each month in the taxation year, taking into account the corporation's eligible production of biodiesel fuel in that month and a variable rate tied to the average monthly price of crude oil. The maximum rate of the tax credit for a particular month is \$0.185 per litre. No tax credit is granted for a particular month if the average monthly price of crude oil is equal to or greater than US\$65. Moreover, the refundable tax credit that may be claimed by a qualified corporation in respect of its eligible production of biodiesel fuel may not exceed its monthly ceiling on the production of biodiesel fuel, which, for a particular month, corresponds to the product obtained by multiplying 345 205 litres by the number of days in the month.

The eligibility period of the refundable tax credit for biodiesel fuel production in Québec ends on March 31, 2018.

¹³⁸ This measure is provided for in Chapter I of Title VII.2.3.1 of Book IV of Part I of the *Taxation Act*.

¹³⁹ See <https://politiqueenergetique.gouv.qc.ca/home/?lang=en>.

¹⁴⁰ Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2017-2018*, March 28, 2017, pp. A.51-55.

As with the changes announced regarding the refundable tax credit for the production of ethanol in Québec,¹⁴¹ the refundable tax credit for biodiesel fuel production in Québec will be extended five years. The terms for calculating the tax credit will be changed so that a fixed rate is used to calculate it, and the monthly ceiling on the production of biodiesel fuel will be raised.

❑ Extension of the eligibility period

Accordingly, the tax legislation will be amended so that the eligibility period for the refundable tax credit for biodiesel fuel production in Québec ends on March 31, 2023.

Consequently, to be included in the eligible production of biodiesel fuel of a qualified corporation for a particular month, biodiesel fuel must, in particular, be produced after March 31, 2017 and before April 1, 2023, and the purchaser must take possession of it in the particular month, before April 1, 2023.

❑ Change to the calculation of the refundable tax credit

The tax legislation will also be amended to provide that the refundable tax credit for the production of biodiesel fuel in Québec will be calculated at a fixed rate of \$0.14 per litre as of 1^{er} avril 2018.

Consequently, for the taxation year of a qualified corporation that includes March 31, 2018, the qualified corporation's refundable tax credit for the production of biodiesel fuel in Québec will be calculated, in respect of its eligible production of biodiesel fuel for each of the months in the part of the taxation year that precedes April 1, 2018, by applying the variable rate determined for each of these months, taking into account, in particular, the average monthly price of crude oil, and, in respect of its eligible production of biodiesel fuel for each of the months in the part of the taxation year that follows March 31, 2018, by applying a fixed rate of \$0.14 per litre.

❑ Change to the monthly ceiling on the production of biodiesel fuel

The monthly ceiling on the production of biodiesel fuel for a qualified corporation will be increased as of April 1, 2018 so that, for a particular month beginning after March 31, 2018, it is equal to the product obtained by multiplying 821 917 litres by the number of days in the particular month.

Consequently, for the taxation year of a qualified corporation that includes March 31, 2018, the corporation's monthly ceiling on the production of biodiesel fuel for each of the months in the part of the taxation year that precedes April 1, 2018 will be equal to the product obtained by multiplying 345 205 litres by the number of days in the month. Its monthly ceiling on the production of biodiesel fuel for each of the months in the part of the taxation year that follows March 31, 2018 will be equal to the product obtained by multiplying 821 917 litres by the number of days in the month.

¹⁴¹ See subsection 3.11.

❑ Other terms

Briefly, where a qualified corporation's taxation year begins on a day in a calendar month other than the first day of that month, the tax legislation provides that the term "month", for the purpose of calculating the tax credit, corresponds to any period that begins on that day in a calendar month and that ends immediately before the same day in the following month.

Thus, the qualified corporation's refundable tax credit, for a particular month including March 31, 2018 but not ending on that day, will be calculated, for the part of the month that ends on March 31, 2018, by multiplying the qualified corporation's eligible production of biodiesel fuel for that part of the month by the rate determined taking into account the average monthly price of crude oil for that part of the month, according to the terms and conditions applicable before April 1, 2018. The corporation's monthly ceiling on the production of biodiesel fuel will be determined for that part of the month and will be equal to the product obtained by multiplying 345 205 litres by the number of days in that portion of the month.

Similarly, the qualified corporation's refundable tax credit for the other part of that month that begins on April 1, 2018 will be calculated by multiplying the qualified corporation's eligible production of biodiesel fuel for the other part of the month by a rate of \$0.14 per litre. The corporation's monthly ceiling on the production of biodiesel fuel for the other part of the month will be equal to the product obtained by multiplying 821 917 litres by the number of days in the other part of the month.

Lastly, since biodiesel fuel produced by a qualified corporation may be considered an eligible production of biodiesel fuel only as of the date on which the purchaser takes possession of it, where the taking of possession of litres of biodiesel fuel produced by the corporation after March 31, 2017 but before April 1, 2018 occurs after March 31, 2018 but before April 1, 2023, the amount of the tax credit that may be obtained by the qualified corporation in respect of these litres of biodiesel fuel included in an eligible production of biodiesel fuel will be calculated by applying a rate of \$0.14 per litre.

❑ Other change

A corporation that files an application for an initial qualification certificate in respect of the tax holiday for large investment projects¹⁴² with the Minister of Finance after the day of the budget speech will not be able to claim the refundable tax credit for biodiesel fuel production in Québec in respect of activities stemming from the carrying out of its large investment project.

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

In fall 2016, the government made bioenergy one of its priorities by designating it one of the five workshop groups of the Wood Innovation Forum. The objective of the forum was to identify the issues relating to the forestry sector, and to find solutions and ways to facilitate the transformation and modernization of the sector.

¹⁴² This measure is provided for in Chapter I of Title VII.2.3.1 of Book IV of Part I of the *Taxation Act*.

It is from this perspective that a refundable tax credit for pyrolysis oil production in Québec will be introduced. This refundable tax credit, at a rate of \$0.08 per litre, will be granted to a qualified corporation in respect of eligible pyrolysis oil it produces in Québec from residual forest biomass, which is sold in and intended for Québec, up to 100 million litres per year. A qualified corporation will be able to claim this tax credit for a period of five years beginning on April 1, 2018.

❑ Qualified corporation

For the purposes of the refundable tax credit for pyrolysis oil production in Québec, a qualified corporation will mean, for a taxation year, a corporation, other than an excluded corporation, that, in the taxation year, has an establishment in Québec where it carries on an eligible pyrolysis oil production business.

■ Excluded corporation

An excluded corporation, for a taxation year, will mean a corporation that is exempt from tax for the taxation year, a Crown corporation or a subsidiary wholly-owned by such a corporation.

❑ Terms for calculating the refundable tax credit

A qualified corporation's refundable tax credit for pyrolysis oil production in Québec, for a taxation year, will be equal to the aggregate of the amounts, each of which is determined for a particular month of the taxation year, and will correspond to the product obtained by multiplying, by a rate of \$0.08 per litre, the lesser of the number of litres in the qualified corporation's eligible production of pyrolysis oil for the particular month and the number of litres in its monthly ceiling on the production of pyrolysis oil for that month.

❑ Eligible production of pyrolysis oil

A qualified corporation's eligible production of pyrolysis oil, for a particular month in a taxation year, will mean the number of litres of eligible pyrolysis oil produced in Québec by the corporation after March 31, 2018 but before April 1, 2023 that is sold by the corporation in Québec to a person that takes possession of it in the particular month, but before April 1, 2023, and that is intended for Québec.

Consequently, pyrolysis oil produced before April 1, 2018 may not be part of the qualified corporation's eligible production of pyrolysis oil, even if it is sold after March 31, 2018. This will also be the case for pyrolysis oil produced before April 1, 2023 of which the purchaser takes possession after March 31, 2023.

Where eligible pyrolysis oil produced in Québec by a qualified corporation after March 31, 2018 is stored with eligible pyrolysis oil produced by the corporation before April 1, 2018, the first-in, first-out rule will apply for the purpose of determining the litres of eligible pyrolysis oil to which the tax credit applies.

■ Eligible pyrolysis oil

For the purposes of the refundable tax credit, eligible pyrolysis oil will mean the liquid mixture of oxygenated organic matter obtained from the condensation of vapours resulting from the thermal decomposition of residual forest biomass.

Residual forest biomass will mean forest biomass resulting from harvesting activities—residual trees (branches and tops), non-commercial tree parts, and twigs and leaves—as well as that resulting from primary or secondary processing, namely, bark, shavings, sawdust and woodchips. It will include non-contaminated, additive-free deconstructed wood, if it is not part of a hierarchical use approach along the lines of 3R-RD (source reduction, reuse, recycling, reclamation and disposal). However, standing trees will be excluded.

■ Pyrolysis oil intended for Québec

Eligible pyrolysis oil will be considered to be intended for Québec if it is sold by the qualified corporation to a person and it is reasonable to expect that the person acquired it for personal use or consumption in Québec or for use or consumption in Québec by another person with which the person does not deal at arm's length.

In addition, the eligible pyrolysis oil must be delivered by the qualified corporation or on its behalf, and possession must be taken of the oil, in Québec.

□ Monthly ceiling on the production of pyrolysis oil

A qualified corporation's monthly ceiling on the production of pyrolysis oil, for a particular month of a taxation year, will be equal to the number of litres obtained by multiplying 273 972 litres by the number of days in the particular month.

For the particular month that includes April 1, 2018, the qualified corporation's monthly ceiling will be equal to the number of litres obtained by multiplying 273 972 litres by the number of days in the particular month that follow March 31, 2018.

Similarly, for the particular month that includes March 31, 2023, the qualified corporation's monthly ceiling on the production of pyrolysis oil will be equal to the number of litres obtained by multiplying 273 972 litres by the number of days in the particular month that precede April 1, 2023.

Where a qualified corporation is associated, in a taxation year, with other qualified corporations carrying on a business that produces eligible pyrolysis oil, the corporations must divide the monthly ceiling on the production of pyrolysis oil among themselves and file an agreement to that end with Revenu Québec, in accordance with the usual rules.

❑ Other terms

■ Rules applicable to combined production units

If, after March 31, 2018, a qualified corporation produces eligible pyrolysis oil in Québec and stores it in a reservoir with another type of pyrolysis oil that it produces or with pyrolysis oil that it acquires and that constitutes another source of supply for the reservoir, the following rules will apply to calculate the portion of the mixed pyrolysis oil in the reservoir that is deemed to be from each production unit and from each source of supply.

For the qualified corporation to be able to claim the refundable tax credit in respect of eligible pyrolysis oil from a production unit that is mixed with pyrolysis oil from another production unit or source of supply, the corporation's facilities must allow for the precise measurement of the number of litres derived from each production unit and each source of supply before the eligible pyrolysis oil is mixed with the production of another unit or another source of supply that feeds the reservoir.

Qualification of pyrolysis oil as eligible or non-eligible pyrolysis oil will be done separately for each production unit.

A shipment of pyrolysis oil made in a particular month from a reservoir of mixed pyrolysis oil will be deemed to be composed of pyrolysis oil derived from each production unit or each source of supply in a proportion, for each production unit or other source of supply, equal to the formula:

$$(A + B) \div (B + C + D)$$

In this formula:

- A is the portion of the stock of mixed pyrolysis oil in the reservoir that is attributable to the production unit or the other source of supply at the beginning of the particular month;¹⁴³
- B is the number of litres of pyrolysis oil derived from the production unit or the other source of supply added to the reservoir during the particular month;
- C is the number of litres of pyrolysis oil added to the reservoir during the particular month and that is not derived from the production unit or the other source of supply; and
- D is the number of litres of pyrolysis oil that corresponds to the total stock of mixed pyrolysis oil in the reservoir at the beginning of the month.

¹⁴³ The portion of the stock of mixed pyrolysis oil in the reservoir that is attributable to the production unit or the other source of supply at the beginning of the particular month will be equal to the number of litres of pyrolysis oil obtained by multiplying the number of litres of pyrolysis oil that corresponds to the total stock of mixed pyrolysis oil in the reservoir at the beginning of the particular month by the proportion calculated by the previously mentioned formula for the month that precedes the particular month in respect of the production unit or the other source of supply.

■ Document to attach to the tax credit application

To claim the refundable tax credit for a taxation year, a qualified corporation must attach the form prescribed by Revenu Québec to its tax return for that year.

In addition, the qualified corporation must provide to Revenu Québec, on request, in respect of its eligible production of pyrolysis oil for each month of a taxation year, a report indicating the name of the person having acquired the eligible pyrolysis oil, the number of litres acquired, the date of the sale, the date on which possession was taken and the address of the place where possession was taken.

■ Government assistance

The amount of the refundable tax credit for pyrolysis oil production in Québec that may be claimed by a qualified corporation must be reduced by the amount of any government assistance, non-government assistance, benefit or advantage.

However, government or non-government assistance will not include:

- an amount deemed to have been paid to the Minister of Revenue under the tax credit;
- the amount of assistance attributable to a labour training program.

Moreover, the tax credit for investments relating to manufacturing and processing equipment may not be claimed in respect of property acquired, after the day of the budget speech, for use in carrying on a business that produces eligible pyrolysis oil.

Similarly, a corporation that files an application for a qualification certificate in respect of the tax holiday for large investment projects¹⁴⁴ with the Minister of Finance after the day of the budget speech will not be able to claim the refundable tax credit for pyrolysis oil production in Québec in respect of activities stemming from the carrying out of its large investment project.

□ Special tax

A qualified corporation will be required to pay a special tax corresponding to the refundable tax credit for pyrolysis oil production in Québec that it received in respect of litres of eligible pyrolysis oil delivered to a person in Québec, whereas the person, or a person with which it was not dealing at arm's length at that time, could be reasonably expected to use or consume the oil elsewhere than in Québec.

□ Application date

Qualified corporations may claim the refundable tax credit for pyrolysis oil production in Québec for a taxation year that ends after March 31, 2018.

¹⁴⁴ This measure is provided for in Chapter I of Title VII.2.3.1 of Book IV of Part I of the *Taxation Act*.

4. OTHER MEASURES

4.1 Changes to various parameters of Capital régional et coopératif Desjardins

Capital régional et coopératif Desjardins was constituted on July 1, 2001 and is governed by the *Act constituting Capital régional et coopératif Desjardins*.¹⁴⁵ Its mission is to raise venture capital for the benefit of Québec's resource regions and the cooperative sector.

Since the creation of Capital régional et coopératif Desjardins, the government has supported its mission by allowing it to raise capital that provides a tax benefit. This tax benefit is in the form of a non-refundable tax credit granted to an individual who acquires, as first purchaser, shares of the capital stock of Capital régional et coopératif Desjardins.

To reflect the fact that the financing of this investment fund is facilitated by the granting of a tax benefit, a number of measures have been taken to govern the organization of the fund, to protect investors in the fund and to ensure that the fund adheres to its mission.

In that regard, the *Act constituting Capital régional et coopératif Desjardins* requires that, for each fiscal year, its eligible investments represent at least 63%¹⁴⁶ of its average net assets for the preceding fiscal year and that investments representing at least 35% of that percentage be made in eligible cooperatives or in entities situated in the resource regions of Québec.¹⁴⁷

If it does not meet its investment requirement for a particular fiscal year, the fund becomes limited in its capacity to issue shares during the following fiscal year.

In addition, Capital régional et coopératif Desjardins is authorized to issue shares without par value that are redeemable at the request of the investor who acquired the shares at least seven years prior to redemption.

However, over the years, few investors in the fund have requested redemption of their shares. Accordingly, to prevent a liquidity shortage in the short and medium term in the event of a massive redemption of shares of the fund's capital stock, the fund keeps a substantial amount of liquid assets at its disposal. This could eventually prevent it from meeting its investment requirement.

¹⁴⁵ CQLR, chapter C-6.1.

¹⁴⁶ This percentage must, for each fiscal year beginning after December 31, 2015, increase by one percentage point until it reaches 65% for any fiscal year beginning after December 31, 2019.

¹⁴⁷ 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. In addition, 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 municipalities of Acton, Antoine-Labelle, Argenteuil, Coaticook, L'Islet, La Vallée-de-la-Gatineau, Matawinie, Montmagny, Papineau, Pontiac, Les Appalaches, Les Etchemins, Les Sources, Le Granit, Le Haut-Saint-François and Le Haut-Saint-Laurent.

To address this situation, amendments will be made to the *Act constituting Capital régional et coopératif Desjardins* and to the tax legislation, to create a new class of shares in respect of which a non-refundable tax credit may temporarily be claimed.

Briefly, only current shareholders who have held Capital régional et coopératif Desjardins shares for at least seven years will have the right to purchase shares of this new class, which will be purchased through the exchange of shares that have been held for at least seven years.

As part of this change to the capital stock of Capital régional et coopératif Desjardins, amendments will also be made to the fund's constituting act to allow the fund to proceed, on an exceptional basis, with three more capitalization periods exceeding its capitalization limit, but while reducing the rate of the non-refundable tax credit for the purchase of shares of the capital stock of Capital régional et coopératif Desjardins.

Lastly, amendments will also be made to this Act to recognize certain investments made by Capital régional et coopératif Desjardins through Desjardins Capital PME S.E.C. and enable Capital régional et coopératif Desjardins to continue to support, through investment, territories facing economic difficulties.

❑ Change to the capital stock of Capital régional et coopératif Desjardins

The change to the capital stock of Capital régional et coopératif Desjardins is intended to encourage investors who have held shares for at least seven years to convert them into new shares that will also be redeemable after a new, mandatory retention period. This will offset the risk of a liquidity shortage in the short or medium term in the event of a massive redemption of shares of the capital stock of Capital régional et coopératif Desjardins, as previously mentioned.

■ New class of shares

The *Act constituting Capital régional et coopératif Desjardins* will be amended to create a new class of shares that will carry essentially the same rights as those of the existing class, subject to the distinctions described below.

Capital régional et coopératif Desjardins will be authorized to issue shares or fractional shares, without par value, of a new class of shares that will be redeemable in the following cases:

- at the request of the person who acquired them at least seven years prior to redemption;
- at the request of the person to whom they have devolved by succession;
- at the request of the person who acquired them, if the person applies in writing within 30 days after their subscription;
- at the request of the person who acquired them, if the person is declared to be suffering from a severe and prolonged mental or physical disability which prevents the person from working.

Capital régional et coopératif Desjardins may purchase by agreement shares and fractional shares of the new class of shares, in accordance with rules having the same effect as those governing the existing class of shares.¹⁴⁸

In addition, the right to vote at all shareholders meetings, receive all dividends reported and share the remaining property in the event Capital régional et coopératif Desjardins is wound up will be the same as those for the existing class of shares.¹⁴⁹

For greater clarity, these shares will not constitute an eligible investment and may not be purchased in or transferred to a registered retirement savings plan (RRSP), a registered retirement income fund (RRIF) or a tax-free savings account (TSFA).

■ **Subscription right restriction**

As in the case of the subscription right respecting shares of the existing class, only natural persons will be able to purchase shares or fractional shares of the new class. Accordingly, holders of such shares or fractional shares may not alienate them.¹⁵⁰

Moreover, only shareholders who have held shares of the existing class for at least seven years and who have never requested their redemption or purchased them by agreement may acquire shares and fractional shares of the new class.

■ **Payment method restriction**

Capital régional et coopératif Desjardins shareholders that comply with the conditions of the subscription right respecting shares or fractional shares of the new class may purchase such shares or fractional shares of the new class solely by exchanging shares or fractional shares of the existing class of capital stock of Capital régional et coopératif Desjardins that they have held for at least seven years.

In the exchange, the number of shares or fractional shares of the new class to be received by the shareholder will correspond to an equivalent number of shares or fractional shares exchanged. In addition, shares and fractional shares of the new class will have the same value as those exchanged.

For greater clarity, shareholders that convert shares in this way will continue to be eligible for the non-refundable tax credit in respect of the purchase of shares of the existing class of capital stock of Capital régional et coopératif Desjardins, because the conversion will not constitute a redemption of shares.¹⁵¹

Moreover, each share or fractional share of the existing class of capital stock of Capital régional et coopératif Desjardins thus used as payment in the exchange will be cancelled.

¹⁴⁸ *Act respecting Capital régional et coopératif Desjardins*, s. 11, 2nd para.

¹⁴⁹ *Ibid.*, s. 9.

¹⁵⁰ *Ibid.*, s. 11, 1st para.

¹⁵¹ *Taxation Act*, s. 776.1.5.0.13.

■ Conversion periods and conversion limit

The subscription for shares or fractional shares of the new class will not increase or decrease the capitalization of Capital régional et coopératif Desjardins, but it will enable Capital régional et coopératif Desjardins to reduce the amount of its liquid assets, in order to better meet its investment obligations.

In addition, to encourage shareholders to convert their shares, a non-refundable tax credit will be granted to them in respect of the conversion of shares in any of the conversion periods that begin on March 1, 2018, 2019 and 2020 and that end on the last day of February of the year following each of these years.

Consequently, the *Act constituting Capital régional et coopératif Desjardins* will be amended to authorize the conversion of shares or fractional shares as previously described for a maximum value of \$100 million for each of these conversion periods.

■ Introduction of a non-refundable tax credit in respect of the conversion of shares

An amendment will be made to the tax legislation so that an individual who acquires, after February 28, 2018, shares or fractional shares of the new class of capital stock of Capital régional et coopératif Desjardins in a conversion period beginning in a taxation year may deduct, in the calculation of the individual's tax otherwise payable for that year, an amount equal to 10% of the value of the shares or fractional shares converted, up to \$15 000.

This non-refundable tax credit, of up to \$1 500, may be claimed by an individual who is resident in Québec at the end of December 31 of a taxation year in respect of which the individual converted the shares or fractional shares, and the individual must file an income tax return for that year and attach a copy of the prescribed form received in that regard from Capital régional et coopératif Desjardins.

However, an individual who requests the redemption of, or who purchases by agreement, shares or fractional shares of either the new or existing class of capital stock of Capital régional et coopératif Desjardins will no longer be eligible for the non-refundable tax credit, in accordance with rules similar to those applicable to the redemption, or purchase by agreement, of shares or fractional shares of the existing class of capital stock of Capital régional et coopératif Desjardins.¹⁵²

Similarly, a correlative amendment will be made to the tax legislation so that an individual who requests the redemption of, or who purchases by agreement, shares or fractional shares of either the new or existing class of capital stock of Capital régional et coopératif Desjardins is no longer eligible for the non-refundable tax credit in respect of the purchase of shares or fractional shares of the existing class of Capital régional et coopératif Desjardins.

¹⁵² Ibid.

Moreover, the same rules as those applicable to a capital gain or loss on the disposition of shares or fractional shares of the existing class of capital stock of Capital régional et coopératif Desjardins will apply to the disposition of shares or fractional shares of the new class of capital stock of Capital régional et coopératif Desjardins.

Thus, this new non-refundable tax credit will not reduce the adjusted cost base of shares of the new class of capital stock of Capital régional et coopératif Desjardins for the purpose of determining the allowable capital gain on the disposition of such shares.

Moreover, in the event of a capital loss on the disposition of such shares, the loss will be reduced by the amount by which the non-refundable tax credit obtained in that regard exceeds the amount of tax paid on the redemption or purchase of the shares.¹⁵³

For greater clarity, the conversion of shares or fractional shares of capital stock of Capital régional et coopératif Desjardins will have no immediate tax consequences.¹⁵⁴

■ **Special tax relating to the recovery of the non-refundable tax credit in respect of the conversion of shares**

The non-refundable tax credit in respect of the conversion of shares of the capital stock of Capital régional et coopératif Desjardins may be recovered through a special tax, in accordance with rules to the same effect as those applicable to the non-refundable tax credit relating to the acquisition of shares of the existing class of capital stock of Capital régional et coopératif Desjardins¹⁵⁵—essentially where shares are redeemed or purchased by agreement by Capital régional et coopératif Desjardins before the end of the seven-year mandatory retention period.

■ **Special tax relating to an excess conversion amount**

Capital régional et coopératif Desjardins will be subject to a special tax in accordance with rules similar to those applicable to an excess capitalization amount,¹⁵⁶ where shares or fractional shares of a value in excess of \$100 million are converted for a conversion period.

¹⁵³ Ibid, s. 241.0.2.

¹⁵⁴ Ibid., s. 301.

¹⁵⁵ Ibid., ss. 1129.27.5 to 1129.27.10.

¹⁵⁶ Ibid., ss. 1129.27.4.1 to 1129.27.4.4.

❑ **Exception to the maximum capitalization of Capital régional et coopératif Desjardins**

According to the *Act constituting Capital régional et coopératif Desjardins*, the fund can raise a maximum amount of \$150 million per capitalization period,¹⁵⁷ as long as it has not reached for the first time, at the end of a capitalization period, at least \$1.25 billion on account of paid-up capital regarding issued and outstanding shares or fractional shares.

Once past the threshold, the maximum amount that Capital régional et coopératif Desjardins may raise for a capitalization period corresponds to the reduction, up to \$150 million, of its paid-up capital attributable to redemptions or purchases by agreement made during the preceding capitalization period.

Capital régional et coopératif Desjardins passed the \$1.25-billion threshold for the first time in 2013.

Exceptionally, for its capitalization period beginning on March 1, 2015 and ending on February 29, 2016, Capital régional et coopératif Desjardins was authorized to raise a maximum of \$150 million. It was also authorized to raise, on an exceptional basis, a maximum of \$135 million for the capitalization period beginning on March 1, 2016 and ending on February 28, 2017 and for the capitalization period beginning on March 1, 2017 and ending on February 28, 2018.

An exception to the maximum capitalization of the fund will again be granted, in order to authorize Capital régional et coopératif Desjardins to raise a maximum of \$140 million for each of the capitalization periods beginning on March 1, 2018, 2019 and 2020 and ending on the last day of February of the year following each of these years.

❑ **Reduction of the non-refundable tax credit**

In the context of the change to the capital stock of Capital régional et coopératif Desjardins, and of the additional exception to the maximum capitalization of the fund, the non-refundable tax credit in respect of the acquisition of shares of the existing class of capital stock of Capital régional et coopératif Desjardins will be reduced from 40% to 35% in respect of all shares acquired after February 28, 2018.

Accordingly, the maximum amount an individual may deduct, in the calculation of the individual's tax otherwise payable for a particular taxation year, in respect of shares purchased during a capitalization period having begun in the year, will be decreased from \$2 000 to \$1 750.

¹⁵⁷

A capitalization period begins on March 1 of a year and ends on the last day of the month of February of the following year.

❑ Change to the recognition of investments made by Capital régional et coopératif Desjardins through Desjardins Capital PME S.E.C.

As previously mentioned, the *Act constituting Capital régional et coopératif Desjardins* requires that, for each fiscal year, its eligible investments represent at least 63% of its average net assets for the preceding fiscal year and that investments corresponding to at least 35% of that percentage be made in eligible cooperatives or in entities situated in the resource regions of Québec. In general, these investments must entail no security or hypothec.

Briefly, in that regard, the Ministère des Finances announced in *Information Bulletin 2017-14*, that the *Act constituting Capital régional et coopératif Desjardins* would be amended to consider the investments made through Desjardins Capital PME S.E.C. to be eligible investments for the purposes of its investment requirement, provided the investments entail no security or hypothec.¹⁵⁸

However, it has come to light that this type of investment made by Capital régional et coopératif Desjardins through this limited partnership sometimes entails securities or hypothecs.

Accordingly, to enable Desjardins Capital PME S.E.C. to continue to fully carry out its mission, the *Act constituting Capital régional et coopératif Desjardins* will be amended so that, after December 31, 2017, investments made by Capital régional et coopératif Desjardins through Desjardins Capital PME S.E.C. may entail securities or hypothecs.

❑ Support for territories facing economic difficulties

As part of Budget Speech 2014-2015,¹⁵⁹ various amendments were announced to the *Act constituting Capital régional et coopératif Desjardins* to reflect the importance of the role that Capital régional et coopératif Desjardins can play in financing businesses established in territories where economic development indices have been the lowest over the past few years, whether or not such territories are in a resource region.

Briefly, it was announced that eligible investments made after December 31, 2013 and before January 1, 2018 in an entity situated in certain regional county municipalities facing economic difficulties would be considered, for the purposes of Capital régional et coopératif Desjardins' investment requirement, to have been made in an entity situated in a resource region.

¹⁵⁸ Ministère des Finances du Québec, *Information Bulletin 2017-14*, December 20, 2017, pp. 16-17.

¹⁵⁹ Ministère des Finances du Québec, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp.73-76.

In addition, it was provided that an investment entailing no security or hypothec, made by Capital régional et coopératif Desjardins after December 31, 2013 and before January 1, 2018 in an eligible entity situated in a territory identified as facing economic difficulties, would be deemed to be increased by 100%, up to \$500 000, for the purposes of the investment requirement.¹⁶⁰

■ **Regional county municipalities outside resource regions facing economic difficulties**

The *Act constituting Capital régional et coopératif Desjardins* will be amended so that otherwise eligible investments made after December 31, 2017 and before January 1, 2021 in an entity situated in a regional county municipality facing economic difficulties, whose name is included in the table below, will be considered, for the purposes of Capital régional et coopératif Desjardins' investment requirement, to have been made in an entity situated in a resource region.

TABLE A.7

List of regional county municipalities outside resource regions facing economic difficulties

Acton	L'Islet	Les Appalaches	Nicolet-Yamaska
Antoine-Labelle	La Vallée-de-la-Gatineau	Les Etchemins	Papineau
Argenteuil	Le Granit	Les Sources	Pierre-De Saurel
Charlevoix-Est	Le Haut-Saint-François	Matawinie	Pontiac
D'Autray	Le Haut-Saint-Laurent	Montmagny	

■ **New increase in the investment amount**

■ **Investments in eligible entities**

To enable Capital régional et coopératif Desjardins to continue to support territories facing economic difficulties, the *Act constituting Capital régional et coopératif Desjardins* will be amended so that a new deemed increase of 100%, for the purposes of the investment requirement, applies to all investments entailing no security or hypothec made by Capital régional et coopératif Desjardins, after December 31, 2017 and before January 1, 2021, in an eligible entity situated in a territory identified as facing economic difficulties. This increase will be up to \$750 000.

In that regard, investments agreed after December 31, 2017 and before January 1, 2021, for which sums have been committed but not yet disbursed at the end of a particular fiscal year, will be deemed to have been made by Capital régional et coopératif Desjardins. For greater clarity, these investments will be included in the calculation of the authorized 12% limit applicable to investments not yet disbursed.

¹⁶⁰ Certain terms of application, such as in regard to investments made through limited partnerships, were set out.

■ Investments made through a limited partnership

Although a limited partnership whose activities consist mainly in investing is not an eligible entity for the purposes of the investment requirement imposed on Capital régional et coopératif Desjardins, this type of investment vehicle is nevertheless present in several eligible investment categories.

For limited partnerships recognized because of the partnerships they help create, the full contribution made to them is generally considered an eligible investment for the purposes of the investment requirement.¹⁶¹ For other limited partnerships, only the portion of the amounts remitted to them by Capital régional et coopératif Desjardins that results in an investment in an eligible entity may be considered an eligible investment for the purposes of the investment requirement.

Accordingly, to better recognize investments made through a limited partnership in eligible entities situated in a territory identified as facing economic difficulties, changes will be made to the calculation of Capital régional et coopératif Desjardins' investment requirement.

First, the *Act constituting Capital régional et coopératif Desjardins* will be amended to increase the amount of otherwise eligible investments made by Capital régional et coopératif Desjardins in a limited partnership by its share in any investment entailing no security or hypothec made, after December 31, 2017 and before January 1, 2021, in an eligible entity situated in a territory identified as facing economic difficulties, through the limited partnership, up to \$750 000 per investment.

Second, the Act will be amended to increase the amount of eligible investments made by Capital régional et coopératif Desjardins through Desjardins Capital PME S.E.C. by its share in any investment made, after December 31, 2017 and before January 1, 2021, in an eligible entity situated in a territory identified as facing economic difficulties, through Desjardins Capital PME S.E.C., up to \$750 000 per investment.

Lastly, the *Act constituting Capital régional et coopératif Desjardins* will be amended so that the share of Capital régional et coopératif Desjardins in any investment entailing no security or hypothec made, after December 31, 2017 and before January 1, 2021, in an eligible entity situated in a territory identified as facing economic difficulties, through a limited partnership in which it holds an interest, directly or through another limited partnership, is deemed to have been increased by 100%, up to \$750 000, for the purposes of the investment requirement.

■ Territories identified as facing economic difficulties

The following table lists the territories identified as facing economic difficulties for the purposes of the increase relating to investments made after December 31, 2017 and before January 1, 2021.

¹⁶¹ The Fonds Relève Québec, S.E.C., the Société en commandite Essor et Coopération and certain local venture capital funds created and managed in Québec are all examples of limited partnerships recognized for the purposes of the investment requirement.

TABLE A.8

List of territories facing economic difficulties

Abitibi-Ouest	La Haute-Côte-Nord	Le Haut-Saint-Laurent	Montmagny
Acton	La Haute-Gaspésie	Le Rocher-Percé	Nicolet-Yamaska
Antoine-Labelle	La Matanie	Les Appalaches	Papineau
Argenteuil	La Matapédia	Les Basques	Pierre-De Saurel
Avignon	La Mitis	Les Etchemins	Pontiac
Bonaventure	La Tuque	Les Îles-de-la-Madeleine	Shawinigan
Charlevoix-Est	La Vallée-de-la-Gatineau	Les Sources	Témiscamingue
D'Au-ray	Le Domaine-du-Roy	Maria-Chapdelaine	Témiscouata
Kamouraska	Le Golfe-du-Saint-Laurent	Maskinongé	
L'Islet	Le Granit	Matawinie	
La Côte-de-Gaspé	Le Haut-Saint-François	Mékinac	

4.2 Temporary maintenance of the increased rate of the tax credit in respect of the acquisition of shares in Fondation

Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi, is a labour-sponsored fund that, while making access to retirement savings easier for workers and the general public, contributes through its investments to maintaining and creating jobs and stimulating the Québec economy.

In carrying out its mission, Fondaction 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.

For over 20 years, the government has supported Fondaction and contributed to its growth by allowing it to raise capital that provides a tax benefit in the form of a non-refundable tax credit granted to individuals who become its shareholders.

For six years, the tax credit in respect of the acquisition of a class "A" or class "B" share or fractional share issued by Fondaction (hereinafter, "eligible share") was 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.

As of the fiscal year beginning after May 31, 2015, the rate of the tax credit was to be reduced to 15%. However, to facilitate the transition, the tax credit rate was set at 20% for any eligible share acquired after May 31, 2015 and before June 1, 2016.

Subsequently, to enable Fondation to invest more in Québec businesses as a partner of the social economy and sustainable development, reduce its operating costs in relation to its assets and better diversify its portfolio,¹⁶² it was announced that the tax credit rate would be maintained at 20% for any eligible share acquired before June 1, 2018.

In that regard, Fondation was authorized to raise capital not exceeding \$250 million for the fiscal year beginning on June 1, 2016 and ending on May 31, 2017. For the fiscal year ending on May 31, 2018, Fondation could raise an amount corresponding to the total of \$250 million and the amount by which \$250 million exceeds the aggregate of the amounts each of which is an amount paid in the fiscal year ending on May 31, 2017 for the purchase of an eligible share as first purchaser.

To enable Fondation to reach sooner a size that would allow it to reduce its management costs to an optimal level, sufficiently diversify its portfolio so as to offer a better return to its investors, and be prepared to better manage the challenges posed by the increasing age of its stock ownership, the rate of the tax credit will be maintained at 20% for eligible shares acquired in the next three fiscal years.

However, to control the tax expenditure attributable to this new support from the government, a limit will be imposed on the capital raised by Fondation.

More specifically, for the fiscal year beginning on June 1, 2018 and ending on May 31, 2019, the amount of capital that may be raised must not exceed the total of \$250 million and the amount by which the maximum amount authorized for the fiscal year ending on May 31, 2018 exceeds the amount raised in the course of that year.

For the fiscal year beginning on June 1, 2019 and ending on May 31, 2020, the amount of capital that may be raised must not exceed the total of \$275 million and the amount by which the maximum amount authorized for the fiscal year ending on May 31, 2019 exceeds the amount raised in the course of that year.

For the fiscal year beginning on June 1, 2020 and ending on May 31, 2021, the amount of capital that may be raised must not exceed the total of \$275 million and the amount by which the maximum amount authorized for the fiscal year ending May 31, 2020 exceeds the amount raised for the year.

In the event that, at the end of one of these fiscal years, the amount of capital raised for the year exceeds the maximum amount authorized, Fondation will have to pay, no later than the 90th day following the end the particular fiscal year, a tax equal to 20% of such excess amount.

¹⁶² Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2016-2017*, March 17, 2016, pp. A.88-A.89.

In addition, to better reflect the fact that the rate of the tax credit in respect of the acquisition of Fondation shares will be maintained temporarily at 20%, amendments will be made to the tax regulations to provide that, where the amount of tax an employer must deduct from an employee's remuneration is not determined 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, before June 1, 2021, of eligible shares issued by Fondation 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.

Correlative 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 particular fiscal year, Fondation 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.

4.3 Adjustments to the compensation tax for financial institutions

Financial institutions must pay a compensation tax that is calculated using two tax bases—amounts paid as wages and insurance premiums (including amounts established in respect of insurance funds).

To ensure that a balanced budget is achieved and maintained, and to consolidate the funding of public services, various changes have been made to the compensation tax for financial institutions in recent years, the latest of which was made at the time the March 2017 Québec Economic Plan¹⁶³ was tabled. At that time, it was announced that the compensation tax for financial institutions, which was to be eliminated on March 31, 2019, would be extended five years and that the rates would be maintained until March 31, 2022. The rates were to be lowered after that date and the compensation tax was to be eliminated on March 31, 2024.

The following table presents the different rates applicable to each of the tax bases of the compensation tax for financial institutions according to the period concerned.

¹⁶³ Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2017-2018*, March 28, 2017, pp. A.59-A.61.

TABLE A.9

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

	December 3, 2014 to March 31, 2022	April 1, 2022 to March 31, 2024
Amounts paid as wages		
– Bank, loan corporation, trust corporation or corporation trading in securities	4.48	2.80
– Savings and credit union	3.52	2.20
– Any other person ⁽¹⁾	1.44	0.90
Insurance premiums and amounts established in respect of an insurance fund	0.48	0.30

(1) This excludes an insurance company and a professional order that created 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* is no longer subject to the compensation tax as of January 1, 2013.

The rates of the compensation tax applicable to amounts paid as wages will be adjusted and amounts paid as wages on which financial institutions are required to pay a compensation tax will be limited. These changes will apply as of April 1, 2018.

For greater clarity, no change is made to the calculation of the compensation tax on insurance premiums or to the calculation of amounts determined with respect to an insurance fund.

□ Adjustment to the rates of the compensation tax on amounts paid as wages

The compensation tax rates applicable to amounts paid as wages will be adjusted as of April 1, 2018.

The table below shows the new rates of the compensation tax for financial institutions applicable according to the period concerned.

TABLE A.10

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

	April 1, 2018 to March 31, 2019	April 1, 2019 to March 31, 2020	April 1, 2020 to March 31, 2022	April 1, 2022 to March 31, 2024
Amounts paid as wages				
– Bank, loan corporation, trust corporation or corporation trading in securities	4.29	4.22	4.14	2.80
– Savings and credit union	3.39	3.30	3.26	2.20
– Any other person ⁽¹⁾	1.37	1.34	1.32	0.90
Insurance premiums and amounts established in respect of an insurance fund	0.48	0.48	0.48	0.30

(1) This excludes an insurance company and a professional order that created an insurance fund under section 86.1 of the *Professional Code*. In addition, a financial institution that has not made the joint election provided for in section 150 of the *Excise Tax Act* is no longer subject to the compensation tax as of January 1, 2013.

Maximum amount of amounts paid as wages subject to the compensation tax

The tax legislation will be amended to require a person that is a financial institution throughout a taxation year to pay, on account of the compensation tax on amounts paid as wages after March 31, 2018, an amount corresponding to the product obtained by multiplying, by the rate applicable to it for the year, the lesser of the amounts paid as wages by the financial institution for the year and the maximum amount of amounts paid as wages subject to the compensation tax (hereinafter, "maximum amount subject") for the year.

A person's maximum amount subject for a taxation year will be:

- in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities: \$1.1 billion;
- in the case of a savings and credit union: \$550 million;
- in the case of any other person:¹⁶⁴ \$275 million.

A person's maximum amount subject for its taxation year that includes April 1, 2018 will be equal to the product obtained by multiplying, by the proportion that the number of days in the part of the taxation year following March 31, 2018 is of 365, the maximum amount subject that would otherwise be applicable to the person.

¹⁶⁴ This excludes 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* has not been subject to the compensation tax, since January 1, 2013.

A person's maximum amount subject for its taxation year that includes March 31, 2024 will be equal to the product obtained by multiplying, by the proportion that the number of days in the part of the taxation year preceding April 1, 2024 is of 365, the maximum amount subject that would otherwise be applicable to the person.

Where a person's taxation year has fewer than 365 days, the person's maximum amount subject for the year will be equal to the product obtained by multiplying, by the proportion that the number of days in the taxation year is of 365, the maximum amount subject that would otherwise be applicable to the person.

For greater clarity, a person that is a financial institution for part of a taxation year will continue to be required to pay the compensation tax on amounts paid as wages during the part or parts of the taxation year during which it was a financial institution.

In addition, where a corporation elects to be considered a financial institution under subsection 1 of section 150 of the *Excise Tax Act*, or where a savings and credit union is deemed to have made the election under subsection 6 of that section, and the value of its supplies that are financial services is less than 90% of the value of all its supplies, the compensation tax it is required to pay takes into account the proportion that the value of the financial services is of the value of all its supplies. This rule will continue to apply.

■ Terms of application

■ Taxation year including April 1, 2018

Where the taxation year of a person that is a financial institution at any time in the year includes April 1, 2018, the amount it will be required to pay on account of the compensation tax on amounts paid as wages for the year will correspond to:

- in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, the aggregate of the following amounts:
 - an amount equal to the product obtained by multiplying, by a rate of 4.48%, the total of amounts paid as wages during the part or parts of the person's taxation year preceding April 1, 2018 during which it was a financial institution,
 - an amount equal to the product obtained by multiplying, by a rate of 4.29% the following amount applicable:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year following March 31, 2018,
 - its maximum amount subject for the year;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year following March 31, 2018 during which the person was a financial institution;

- in the case of a savings and credit union, the aggregate of the following amounts:
 - an amount equal to the product obtained by multiplying, by a rate of 3.52%, the total of amounts paid as wages during the part or parts of the person's taxation year preceding April 1, 2018 during which it was a financial institution,
 - an amount equal to the product obtained by multiplying, by a rate of 3.39% the following amount applicable:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year following March 31, 2018,
 - its maximum amount subject for the year;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year following March 31, 2018 during which the person was a financial institution;
- in the case of any other person,¹⁶⁵ the aggregate of the following amounts:
 - an amount equal to the product obtained by multiplying, by a rate of 1.44%, the total of amounts paid as wages during the part or parts of the person's taxation year preceding April 1, 2018 during which it was a financial institution,
 - an amount equal to the product obtained by multiplying, by a rate of 1.37%, the following amount applicable:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year following March 31, 2018,
 - its maximum amount subject for the year;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year following March 31, 2018 during which the person was a financial institution.

¹⁶⁵

See preceding note.

■ **Taxation year including April 1, 2019, April 1, 2020 or April 1, 2022**

Where the taxation year of a person that is a financial institution at any time in the year includes April 1, 2019, the amount the person will be required to pay on account of the compensation tax on amounts paid as wages for the year will correspond to:

- in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, the aggregate of the following amounts:
 - an amount equal to the product obtained by multiplying, by a rate of 4.29%, the following applicable amount:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year preceding April 1, 2019,
 - its maximum amount subject for the year;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year preceding April 1, 2019 during which the person was a financial institution;
 - an amount equal to the product obtained by multiplying, by a rate of 4.22%, the following applicable amount:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year following March 31, 2019,
 - the amount by which its maximum amount subject for the year exceeds the total of amounts paid as wages during the part of the taxation year preceding April 1, 2019;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year following March 31, 2019 during which the person was a financial institution;
- in the case of a savings and credit union, the aggregate of the following amounts:
 - an amount equal to the product obtained by multiplying, by a rate of 3.39%, the following applicable amount:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year preceding April 1, 2019,

- its maximum amount subject for the year;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year preceding April 1, 2019 during which the person was a financial institution;
- an amount equal to the product obtained by multiplying, by a rate of 3.30%, the following applicable amount:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year following March 31, 2019,
 - the amount by which its maximum amount subject for the year exceeds the total of amounts paid as wages during the part of the taxation year preceding April 1, 2019;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year following March 31, 2019 during which the person was a financial institution;
- in the case of any other person,¹⁶⁶ the aggregate of the following amounts:
 - an amount equal to the product obtained by multiplying, by a rate of 1.37%, the following amount applicable:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year preceding April 1, 2019,
 - its maximum amount subject for the year;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year preceding April 1, 2019 during which the person was a financial institution;
 - an amount equal to the product obtained by multiplying, by a rate of 1.34%, the following amount applicable:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year following March 31, 2019,
 - the amount by which the person's maximum amount subject for the year exceeds the total of amounts paid as wages during the part of the taxation year preceding April 1, 2019;

¹⁶⁶

See note 164.

- in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year following March 31, 2019 during which the person was a financial institution.

These rules will apply, with the necessary adaptations and taking into account the rates applicable to each of the periods concerned, to the calculation of the compensation tax on amounts paid as wages of a person that is a financial institution at any time in a taxation year, where the taxation year includes April 1, 2020 or April 1, 2022.

■ **Taxation year including March 31, 2024**

Where the taxation year of a person that is a financial institution at any time in the year includes March 31, 2024, the amount the person will be required to pay on account of the compensation tax on amounts paid as wages for the year will correspond to:

- in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, an amount equal to the product obtained by multiplying, by a rate of 2.80%, the following amount applicable:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year preceding April 1, 2024,
 - its maximum amount subject for the year;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year preceding April 1, 2024 during which the person was a financial institution;
- in the case of a savings and credit union, an amount equal to the product obtained by multiplying, by a rate of 2.20%, the following amount applicable:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year preceding April 1, 2024,
 - its maximum amount subject for the year;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year preceding April 1, 2024 during which the person was a financial institution;

- in the case of any other person,¹⁶⁷ an amount equal to the product obtained by multiplying, by a rate of 0.90%, the following amount applicable:
 - in the case of a person that is a financial institution throughout the year, the lesser of the following amounts:
 - the total of amounts paid as wages during the part of the person's taxation year preceding April 1, 2024,
 - its maximum amount subject for the year;
 - in all other cases, the total of amounts paid as wages during the part or parts of the person's taxation year preceding April 1, 2024 during which the person was a financial institution.

☐ Integrity rule

Where it is reasonable to believe that, for the purpose of reaching the maximum amount paid as wages subject to the compensation tax more rapidly, a financial institution pays, at a particular time, amounts paid as wages to an employee who renders services to another financial institution at an establishment, situated in Québec, of the other financial institution, that the services rendered by the employee to the other financial institution are rendered as part of the usual and ordinary activities of the other financial institution and are in the nature of those rendered by the employees of the other financial institution, and that the financial institution is not dealing at arm's length with the other financial institution at that time, the following presumptions will apply for the purpose of calculating the compensation tax of the financial institutions:

- the amount paid as wages to the employee by the financial institution will be deemed to be an amount paid as wages by the other financial institution at the time it is paid by the financial institution;
- the amount thus deemed paid as wages by the other financial institution will be deemed not to have been paid by the financial institution.

☐ Instalment payments

The instalment payments of a corporation and the amounts payable in respect of each month by a financial institution that is not a corporation will be adjusted, as necessary, in accordance with the usual rules, in order to take into account the changes to the compensation tax.

4.4 Introduction of an environmental studies allowance in the *Mining Tax Act*

Under the *Mining Tax Act*, an operator is required to pay, for a fiscal year, mining duties equal to the greater of its minimum mining tax and its mining tax on its annual profit, for the fiscal year.

¹⁶⁷ See note 164.

An operator's mining tax on its annual profit for a fiscal year is equal to the sum of the amounts obtained by applying each of the tax rates of 16%, 22% and 28% to a segment of the operator's annual profit for the fiscal year determined on the basis of its profit margin for the fiscal year.

Briefly, an operator's annual profit for a fiscal year is established by subtracting, from the total of all amounts each of which is the annual earnings in respect of each mine operated by the operator for the fiscal year, certain expenses and allowances, such as exploration allowance and the pre-production development allowance, relating to its mining operation for the fiscal year.

At the time the Québec Economic Plan 2017-2018¹⁶⁸ was tabled, an allowance for community consultations was introduced in the mining tax system to provide additional support to businesses at various stages in the development of their projects. This allowance is deductible in the calculation of the operator's annual profit.

In recent years, the concepts of environmental protection, social acceptability and transparency have gained ground in the mining sector. Consequently, mining businesses have seen an increase in their expenses relating to their environmental responsibilities.

Accordingly, to take the reality of the mining industry into account and foster environmental protection, social acceptability and transparency, the *Mining Tax Act* will be amended in order to introduce an environmental studies allowance.

□ Environmental studies allowance

The environmental studies allowance will be similar to the allowance for community consultations.

Thus, an operator may deduct, in the calculation of its annual profit for a fiscal year, an amount on account of the environmental studies allowance that may not exceed the balance of its cumulative environmental studies expenses account at the end of the fiscal year.

■ Cumulative environmental studies expenses account

The balance of the cumulative environmental studies expenses account of an operator at the end of a fiscal year will correspond to the amount by which the aggregate of the amounts each of which represents 50% of environmental studies expenses incurred by the operator in the fiscal year or a preceding fiscal year, but after the day of the budget speech, exceeds the aggregate of the amounts on account of the environmental studies allowance deducted in the calculation of the operator's annual profit for a preceding fiscal year.

¹⁶⁸ Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2017-2018*, March 28, 2017, pp. A.61-A.64.

■ Environmental studies expenses

Environmental studies expenses, for the purposes of this allowance, will include expenses of the same nature as the environmental studies expenses included in the cumulative exploration expenses of an operator.¹⁶⁹

However, as in the case of the rules applicable to community consultation expenses, expenses that may qualify as exploration expenses and expenses that may reasonably be considered to be attributable to a mine which has come into production in reasonable commercial quantities may not be considered environmental studies expenses for the purposes of the environmental studies allowance. This is also the case for fees payable under a law or regulation as rates, administrative expenses, guarantees, compensation measures or other similar expenses.¹⁷⁰

■ Other terms

The treatment applicable to government assistance received, receivable or repaid and related to environmental studies expenses will be the same as that applicable to such assistance for the calculation of cumulative pre-production development expenses.

Moreover, the provisions common to allowances will also apply to this allowance.¹⁷¹

□ Refundable duties credit for losses

An operator who sustains an annual loss rather than making an annual profit for a fiscal year may claim, for the fiscal year, a refundable duties credit for losses that must not exceed 16% of the lesser of the following amounts:

- its adjusted annual loss for the fiscal year; and
- the amount equal to the total of: the amount corresponding to the pre-production development expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the pre-production development allowance, and the amount corresponding to community consultation expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the allowance for community consultations, to which is added, if the operator is an eligible operator for the fiscal year, 50% of the amount corresponding to the exploration expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the exploration allowance.

Changes will be made to the refundable duties credit for losses of an operator, to take into account the introduction of the environmental studies allowance.

¹⁶⁹ *Mining Tax Act*, s. 16.9.

¹⁷⁰ For example, fees payable under the *Environment Quality Act* (CQLR, chapter Q-2) or its regulations will not be included in environmental studies expenses; nor will the financial contribution payable for the protection of wetlands and bodies of water.

¹⁷¹ *Mining Tax Act*, ss. 16.14 to 16.18.

Consequently, the refundable duties credit for losses that an operator may claim for a fiscal year ending after the day of the budget speech may not exceed 16% of the lesser of the following amounts:

- its adjusted annual loss for the fiscal year; and
- the amount equal to the total of: the amount corresponding to the pre-production development expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the pre-production development allowance, the amount corresponding to community consultation expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the allowance for community consultations, and the amount corresponding to the environmental studies expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the environmental studies allowance, to which is added, if the operator is an eligible operator for the fiscal year, 50% of the amount corresponding to the exploration expenses it incurred for the fiscal year, without exceeding the amount it deducted for the fiscal year on account of the exploration allowance.

For greater clarity, the other rules applicable to the calculation of the refundable duties credit for losses that an operator may claim for a fiscal year remain unchanged.

❑ Application date

These changes will apply to a fiscal year of an operator that ends after the day of the budget speech, in respect of environmental studies expenses incurred after that day.

4.5 Temporary increase in the refundable tax credit for holders of a taxi driver's permit

The tax system grants a refundable tax credit to taxpayers who are the holders of a taxi driver's permit.

Briefly, under this tax credit, a taxpayer who, at any time in a taxation year, is the holder of a taxi driver's permit may claim, for the taxation year, a refundable tax credit of up to \$574¹⁷² if, on December 31 of the taxation year, the taxpayer was resident in Québec or, if the taxpayer died in the year, the taxpayer was resident in Québec immediately before the taxpayer's death. However, if the taxpayer is the holder of a taxi owner's permit on December 31 of the taxation year, the taxpayer may be eligible for this tax credit only if the taxpayer did not assume all or almost all the fuel cost of bringing into service any motor vehicle attached to the permit¹⁷³.

¹⁷² The amount of \$574 used to calculate the refundable tax credit for holders of a taxi driver's permit is automatically adjusted each year. For the 2017 taxation year, this amount was \$569.

¹⁷³ Where this taxpayer assumed, during the taxation year, all or almost all the fuel cost of bringing into service any motor vehicle attached to a taxi owner's permit of which the taxpayer was the holder on December 31 of the taxation year, the taxpayer is then eligible for the refundable tax credit for taxpayers that are holders of a taxi owner's permit.

The amount of the tax credit granted to a taxpayer for a taxation year may not exceed a certain amount, hereinafter, “limit based on the gross income from taxi-related activities,” of the taxpayer for the taxation year. A taxpayer’s limit based on the gross income from taxi-related activities for a taxation year corresponds to 2% of the aggregate of the following amounts:

- the taxpayer’s gross income for the year from employment as a taxi driver;
- the taxpayer’s gross income for the year from the taxpayer’s business of providing transportation by taxi; and
- the taxpayer’s gross income for the year from the leasing of any motor vehicle attached to a taxi owner’s permit of which the taxpayer is the holder.

The taxi industry is currently undergoing a major period of change. To support the taxi industry during this period, the government has announced financial assistance for holders of a taxi owner’s permit. To provide financial support to taxi drivers as well, a temporary increase in the refundable tax credit for holders of a taxi driver’s permit will be introduced for taxation years 2017 and 2018. This increase will be a maximum amount of \$500.

□ Calculation of the tax credit for taxation years covered by the temporary increase

The tax legislation will be amended so that, for a taxpayer who is resident in Québec at the end of December 31 of the 2017 or 2018 taxation year—or, if the taxpayer died in the year, the taxpayer was resident in Québec immediately before the taxpayer’s death—and who, at any time in the year, is the holder of a taxi driver’s permit and, if the taxpayer is the holder of a taxi owner’s permit on December 31 of the year, who did not assume all or almost all the fuel cost of bringing into service any motor vehicle attached to the permit, the tax credit for which the taxpayer will be eligible for the taxation year will be the amount determined by the formula:

$$A + ((A \div \text{maximum amount applicable for the year}) \times \$500)$$

In the above formula, A is the lesser of:

- the taxpayer’s limit based on the gross income from taxi-related activities for the year, and
- the maximum amount applicable for the year.

The maximum amount applicable for the 2017 taxation year will be \$569. The maximum amount applicable for the 2018 taxation year will be \$574. These are the amounts taken into consideration for the purpose of determining the tax credit for the 2017 and 2018 taxation years, in accordance with the rules applicable before the temporary increase.

Thus, where, in accordance with the existing rules, a taxpayer was already eligible for the full amount of the tax credit for the year, the taxpayer will be eligible for the full amount of the increase. Accordingly, the taxpayer's tax credit will be \$1 069 for 2017 and \$1 074 for 2018.

TABLE A.11

Illustration of the value of the refundable tax credit for holders of a taxi driver's permit
(dollars)

	Taxpayer eligible, under the existing rules, for the full amount of the tax credit		Taxpayer eligible, under the existing rules, for half the maximum value of the tax credit	
	2017	2018	2017	2018
Before temporary increase	569.00	574.00	284.50	287.00
After temporary increase	1 069.00	1 074.00	534.50	537.00

❑ Clarifications about the terms for calculating the tax credit for taxation years subsequent to 2018

The refundable tax credit for holders of a taxi driver's permit for taxation years subsequent to 2018 will continue to be calculated in accordance with the rules applicable before the temporary increase in the tax credit. For greater clarity, the amount taken into consideration to calculate this tax credit for the 2019 taxation year will be adjusted on the basis of the maximum amount applicable for the 2018 taxation year—\$574, and in accordance with the usual rules.

❑ New notice of assessment for the 2017 taxation year

A new notice of assessment for the 2017 taxation year will be sent not later than May 31, 2018 to all taxpayers in respect of which Revenu Québec has already determined the amount of the refundable tax credit for holders of a taxi driver's permit for that year.

5. FEDERAL LEGISLATION AND REGULATIONS

5.1 Harmonization with News Release 2017-124 of the Department of Finance Canada

Under the federal and Québec tax systems, to discourage income splitting with minor children, certain types of income received by children aged 17 and under are not subject to income tax calculated on the basis of the progressive tax rate table, but, rather, to a special tax at the highest tax rate. This tax is commonly called the “tax on split income.”

On December 13, 2017, the Department of Finance Canada released draft legislative proposals to amend the *Income Tax Act* and the *Income Tax Regulations*,¹⁷⁴ in particular to improve the treatment of income sprinkling.

Thus, the proposed amendments broaden the application of the tax on split income to individuals aged 18 and over and to other types of income. Exclusions include that pertaining to individuals 18 years of age and over actively engaged, on a regular, continuous and substantial basis, in the activities of the business; that pertaining to individuals having attained 25 years of age, in respect of income received from excluded shares; and, under certain conditions, to spouses. Amendments are also proposed so that the tax on split income does not limit eligibility for the cumulative capital gains exemption.

Given that the Québec tax system is harmonized with the federal tax system regarding the tax on split income, the Québec tax legislation will be amended to incorporate these legislative proposals, with adaptations on the basis of its general principles.

The Department of Finance Canada also released legislative proposals to introduce a reporting requirement with respect to a trust’s tax account number and bring in requirements for tax slips applicable to partnerships and trusts. These legislative proposals will also be retained, although they do not require legislative or regulatory amendments in all cases. The Minister of Revenue will therefore be able to require a trust account number, within the meaning of the federal tax legislation, to be provided.

The legislative proposals pertaining to the credit with respect to age, the GST/HST credit, the Canada Child Benefit, the working income tax benefit, the tax on old age security benefits and the unauthorized communication of an identification number will not be retained, since the Québec tax system does not contain analogous provisions or is satisfactory.¹⁷⁵

¹⁷⁴ Department of Finance Canada, News Release 2017-124, “Government Simplifies Measures to Restrict Income Sprinkling,” December 13, 2017.

¹⁷⁵ These legislative amendments amend section 122.6 and subsections 118(2), 118(4), 122.5(1), 122.7(1), 180.2(1) and 239(2.3) of the *Income Tax Act*.

The changes to the Québec tax system will be adopted only following assent to any federal statute or adoption of any federal regulation implementing the legislative and regulatory proposals retained, taking into account technical amendments that may be made prior to assent or adoption, as the case may be. For greater clarity, these changes will apply on the same dates as those retained for the purposes of the legislative proposals with which they are harmonized.

5.2 Harmonization with certain measures announced in the federal budget of February 27, 2018

On February 27, 2018, the Minister of Finance of Canada presented the federal government's budget for 2018. At that time, he tabled, in the House of Commons, supplementary information describing in detail each of the tax measures proposed in the budget, along with notices of ways and means motions and draft amendments¹⁷⁶ to amend the federal tax legislation and regulations accordingly.

These measures bear on, among other things, international taxation. Thus, the federal tax legislation and regulations will be amended to add detailed comprehensive "look-through" rules to the provisions on cross-border anti-surplus-stripping using partnerships and trusts (BR 28 to BR 30),¹⁷⁷ amend certain rules governing foreign affiliates (BR 31) and extend the reassessment period, where the reassessment relates to the adjustment of a loss carry-back and is made as a consequence of a transaction involving a taxpayer and a non-resident person with whom the taxpayer does not deal at arm's length (BR 35).

Amendments were also announced to prevent taxpayers from sustaining artificial losses using equity-based financial arrangements (BR 22 and BR 23) and in relation to the stop-loss rule on share repurchase transactions (BR 24 and BR 25).

Québec tax legislation and regulations will be amended to incorporate these measures, with adaptations on the basis of their general principles.

However, the changes to the Québec tax system will be adopted only following assent to any federal statute or adoption of any federal regulation implementing the measures retained, taking into account technical amendments that may be made prior to assent or adoption, as the case may be. These changes will apply on the same dates as those retained for the purposes of the federal measures with which they harmonize.

Moreover, the measure on sharing information for criminal matters and that on information return requirements for foreign affiliates will not been retained, because they do not correspond to features of Québec's tax system.

Lastly, the Ministère des Finances du Québec will make known at a later date its position on the other fiscal measures announced at the time the federal budget of February 27, 2018 was tabled.

¹⁷⁶ Department of Finance Canada, *Tax Measures: Supplementary Information*, Budget 2018 Companion Paper, February 27, 2018.

¹⁷⁷ The references in parentheses correspond to the number of the budget resolutions (BRs) of the Notice of Ways and Means Motion to Amend the Income Tax Act and Other Related Legislation tabled in the House of Commons on February 27, 2018.

Section B

PLAN TO ENSURE TAX FAIRNESS

Introduction.....	B.3
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INTRODUCTION

Public services are funded through tax revenue. However, some taxpayers, both individuals and corporations, manage to avoid certain tax obligations, thereby depriving the government of a portion of the revenue it would otherwise receive.

In some cases, schemes aimed at avoiding tax rely on the use of tax havens. In response to this phenomenon, the Québec government tabled the Tax Fairness Action Plan¹ in the fall of 2017.

- This plan provides for implementing a number of measures aimed at reducing international tax losses arising from the use of tax havens and ensuring that the government fully collects the tax revenue it is owed on activities associated with the digital economy.

Alongside its efforts to minimize international tax loss, the government continues to combat unreported work and tax evasion in Québec.

This section sets out the measures planned for 2018-2019 to ensure tax fairness and presents the results of initiatives already implemented by the government.

¹ Ministère des Finances du Québec, *Québec Economic Plan – Tax Havens: Tax Fairness Action Plan*, November 16, 2017, 246 p.

1. ENSURING TAX FAIRNESS

Tax evasion and the underground economy lead to significant tax losses for the Québec government and are unfair to the vast majority of taxpayers, who meet their tax obligations.

In 2015, the size of Québec's underground economy was estimated at \$13.1 billion and the tax losses for the Québec government stood at \$3.8 billion.

TABLE B.1

Estimate of tax losses related to unreported legal income (billions of dollars, unless otherwise indicated)

	Tax evasion rate (% of GDP)	Underground economy	Tax losses
2002	4.0	9.7	2.5
2008	4.2	12.8	3.5
2013	3.8	13.7	3.9
2015	3.4	13.1	3.8

Sources: Statistics Canada, Revenu Québec and Ministère des Finances du Québec.

In addition to these losses generated in Québec, international tax losses of \$686 million are incurred every year.

— These losses are primarily due to the use of tax havens by Québec taxpayers as well as to issues collecting sales taxes as a result of the rise of e-commerce.

TABLE B.2

International tax losses for Québec (millions of dollars)

	Tax losses
Tax avoidance due to profit shifting	159
E-commerce	270
Unreported personal offshore investments	257
TOTAL	686

Sources: Revenu Québec and Ministère des Finances du Québec.

In 2015, the National Assembly's Committee on Public Finance gave itself a self-initiated order to combat the use of tax havens for the purposes of tax evasion and abusive tax avoidance. The Committee's work culminated in a report presenting its recommendations to the government.

In response to the report by the Committee on Public Finance, the government published its Tax Fairness Action Plan in November 2017, which confirms its desire to step up the fight against tax evasion and abusive tax avoidance in Québec. New measures will be added to the Plan in 2018-2019.

Self-initiated order regarding the use of tax havens

As part of its self-initiated order regarding the use of tax havens, in April 2017, the National Assembly's Committee on Public Finance tabled a report presenting recommendations to the government for combatting the erosion of its tax base.¹

- The report contains 38 recommendations primarily calling for action by the Québec and federal governments. The Ministère des Finances du Québec and Revenu Québec were responsible for identifying and implementing responses to many of the recommendations.

The recommendations have two clear objectives for fighting against base erosion:

- combat the use of tax havens;
- adapt the collection of sales tax to the development of e-commerce.

¹ Committee on Public Finance, *The Tax Havens Phenomenon – Observations, Conclusions and Recommendations*, Report, March 017, 63 p.

1.1 Plan to ensure tax fairness

Tax Fairness Action Plan presents 14 measures aimed at curbing international tax losses and improving tax fairness. The Plan's development was guided by four principles:

- follow the spirit of the concerted actions set by the Organisation for Economic Co-operation and Development (OECD) to fight base erosion and profit shifting (BEPS² project);
- be fair to all businesses carrying out activities in Québec;
- ensure that the measures cannot be circumvented by moving a place of business from Québec to another province in Canada;
- consult as much as possible with the federal government regarding the measures.

The measures set out in the action plan are centred on five strategic priorities:

- recovering the corporate income tax owed;
- collecting Québec sales tax in the digital economy;
- recovering the personal income tax owed;
- strengthening tax and corporate transparency;
- blocking access to government contracts for corporations and individuals that use abusive tax avoidance strategies, including abusive tax avoidance using tax havens.

² This abbreviation stands for base erosion and profit shifting.

Tax Fairness Action Plan

The Tax Fairness Action Plan, which was published in November 2017, is the Québec government's response to the recommendations by the Committee on Public Finance, which were set out in its report, "The Tax Havens Phenomenon: Observations, Conclusions and Recommendations."

The Tax Fairness Action Plan identifies 14 measures to prevent the erosion of the government's tax base, which are divided into five strategic areas.

Recovering the corporate income tax owed

Measure 1: Québec supports the measures proposed by the OECD and coordinating with the federal government to obtain the "country by country" information from the BEPS project.

Measure 2: Québec asks the federal government to send it the information obtained under bilateral tax treaties with other countries.

Measure 3: In order to make full use of the information obtained through measures 1 and 2, Québec is setting up the Special Task Force on International Tax Planning to use the financial and tax data.

Collecting sales tax in the digital economy

Measure 4: Québec wishes to require sales tax to be collected on services and incorporeal property sold from abroad by enterprises without a physical or significant presence in Québec; it is proposing concerted action to the federal government.

Measure 5: Québec will support the Canada Border Services Agency to ensure collection of Quebec sales tax on corporeal property from abroad and sold by companies without a physical or significant presence in Québec.

Measure 6: For property and services from elsewhere in Canada and sold by suppliers that do not have a physical or significant presence in Québec, Québec plans to require these suppliers to register with the Québec sales tax system, collect the tax and remit it according to special rules.

Recovering the personal income tax owed

Measure 7: Québec has agreed with the federal government to receive tax information obtained as a result of the detection, prevention and deterrence of money laundering and the financing of terrorist activities (international electronic funds transfers), as well as information obtained when applying the Standard for Automatic Exchange of Information introduced by the OECD.

Measure 8: In order to capitalize fully on the information received under Measure 7, Québec is mandating the Special Task Force on International Tax Planning to act in the area of personal income tax and allocating additional resources for that purpose.

Measure 9: Québec is continuing the voluntary disclosure program.

Strengthening tax and corporate transparency

Measure 10: Québec is making the information in the Québec enterprise register more accessible.

Measure 11: Québec enables better identification of trusts subject to Québec income tax, and trusts that could have major ties to Québec.

Measure 12: Québec is waging a stronger battle against aggressive tax planning.

Tax Fairness Action Plan (cont.)**Blocking access to government contracts for corporations and individuals that use abusive tax avoidance strategies, including abusive tax avoidance using tax havens**

Measure 13: Québec is expanding the bars to contracting with the government set out by the Autorité des marchés financiers to include abusive tax avoidance, including abusive tax avoidance using tax havens.

Measure 14: Québec implements a tax informant program.

1.2 New measures for ensuring tax fairness

To intensify the fight against tax evasion and abusive tax avoidance, the government will implement the following measures, which are planned for 2018-2019:

- making the collection of the Québec sales tax (QST) mandatory for suppliers outside Québec;
- eliminating certain loopholes, particularly with regard to international taxation;
- restricting income sprinkling arrangements;
- improving tax and corporate transparency via the Registraire des entreprises du Québec;
- rewarding certain tax informants;
- reviewing Revenu Québec's voluntary disclosure program;
- supporting clients and workers to more effectively combat unreported work in the employment agency sector;
- subjecting food trucks and trailers to mandatory billing via sales recording modules.

❑ **Making the collection of QST mandatory for suppliers outside Québec**

■ **The e-commerce challenge**

The rise in the number of online transactions in recent years poses a significant challenge for all jurisdictions that charge a value-added tax. In addition to the loss of government revenue, it is a matter of fairness toward domestic businesses, which are required to collect and remit the tax.

The QST is a value-added tax based on the destination principle. It therefore applies to properties and services acquired in Québec, whether produced in Québec or from elsewhere in Canada or abroad. Conversely, the QST does not generally apply to properties and services sold by Québec businesses that are intended for use or consumption outside Québec.

Suppliers are generally required to register for the system, collect the QST paid by purchasers and remit it to Revenu Québec.

However, suppliers that do not have a physical or significant presence in Québec are not required to register for the QST, or to collect or remit the tax, even when their supplies are taxable. In such cases:

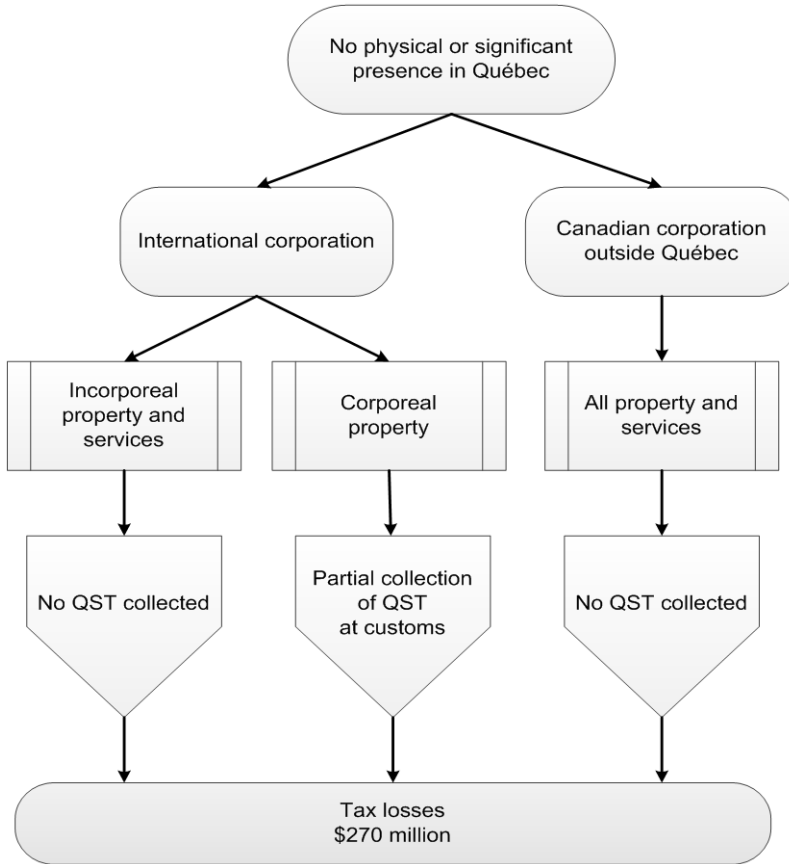
- for services and incorporeal property, Québec consumers are required to self-assess the QST payable;
- for corporeal property from abroad, the Québec sales tax is collected in principle by the Canada Border Services Agency. For property acquired from another Canadian jurisdiction, Québec consumers are required to self-assess the QST payable.

■ **Revenue losses of \$270 million**

The tax losses resulting from uncollected QST on property and services purchased online totalled \$270 million in 2017, according to estimates by Revenu Québec.

ILLUSTRATION B.1

Tax losses attributable to the collection of QST – 2017



Of this amount, \$43.1 million is attributable to online purchases made in Canada but outside Québec, whereas \$226.8 million is linked to purchases made abroad. For comparison purposes, the total QST revenue actually collected is approximately \$17 billion per year.

TABLE B.3

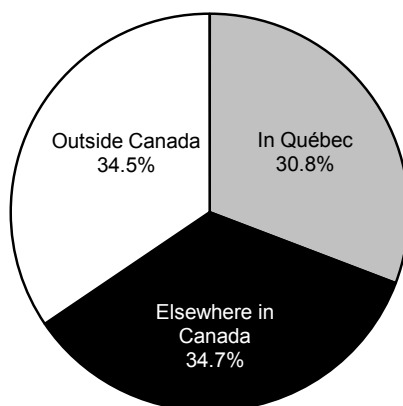
Tax losses attributable to e-commerce
 (millions of dollars)

Source	Corporeal property	Incorporeal property and services	Total
Outside Canada	158.4	68.4	226.8
Elsewhere in Canada	42.0	1.1	43.1
Québec	—	—	—
TOTAL	200.4	69.5	269.9

Based on tests carried out by Revenu Québec, although QST was collected for 100% of purchases made from Québec suppliers and nearly 84% of transactions involving a retailer in another Canadian jurisdiction, this was the case for less than 10% of purchases from abroad.

Although online purchases are divided almost equally among Québec suppliers, foreign suppliers and suppliers from other Canadian jurisdictions, tax losses are primarily linked to purchases from foreign suppliers.

CHART B.1

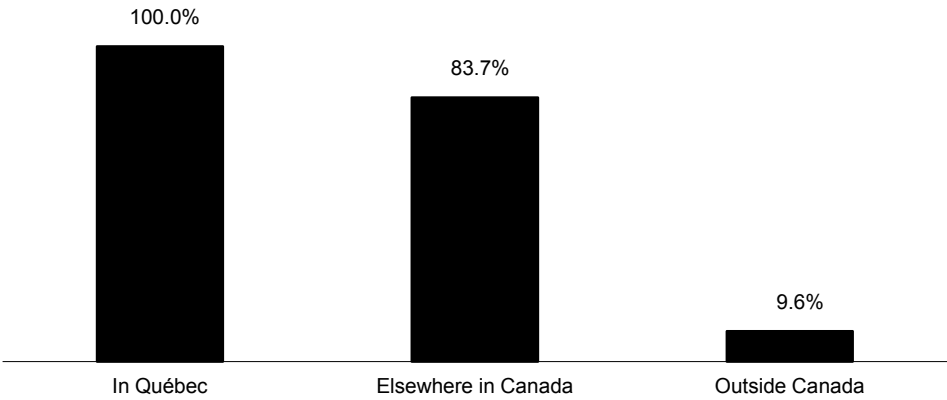
Sources of online purchases in 2017
 (percentage of amounts spent)


Source: Centre facilitant la recherche et l'innovation dans les organisations.

In fact, the majority of online sales to Québec consumers by the major Canadian companies outside Québec do not pose a problem, as many of these companies also have a physical or significant presence in Québec and therefore collect and remit QST.

CHART B.2

Québec sales tax collected according to supply source
(percentage of taxes payable)



Source: Revenu Québec.

■ **Approach adopted by the Québec government**

The OECD recommends that foreign suppliers be required to register for the value-added tax of the country of destination of the property or services, and that they collect and remit that country's tax. The OECD also recommends that a specific registration system be put in place for such suppliers.

The new measures announced in the Québec Economic Plan of March 2018 therefore comply with the OECD's recommendations and are comparable to the rules already in place in several countries. The Québec government is the first government in Canada to tackle this issue.

■ **Foreign suppliers of incorporeal property and services**

Effective January 1, 2019, foreign companies that sell more than \$30 000 in taxable supplies per year of incorporeal property or services to Québec consumers will be required to register for the QST.

When selling taxable supplies to Québec consumers, they will therefore be required to collect QST and remit it to Revenu Québec.

■ Canadian suppliers without a presence in Québec

Effective September 1, 2019, Canadian companies without a physical or significant presence in Québec that sell more than \$30 000 in taxable supplies per year to Québec consumers will be required to register for the QST and to collect and remit the tax when selling taxable supplies to Québec consumers.

Given the Canadian economy's high level of integration, a potentially significant number of businesses of all sizes may be impacted. An additional delay was therefore granted for the effective date of this new obligation to enable these businesses to become better prepared for it. In the coming months, the Québec government also plans to propose to other Canadian jurisdictions information sharing and mutual assistance agreements with regard to taxes that are similar to those entered into between the federal government and foreign governments.

Experiences abroad

The countries that have announced that they will require foreign suppliers to charge sales tax have generally provided one or two years between the announcement and the implementation date of the measure.

- For example, Australia made such an announcement in its 2015 budget and the measure took effect on July 1, 2017, and Singapore just announced a measure in its 2018 budget that will take effect in January 2020.

Examples of timeframes before the effective date of the sales tax collection requirement

	Announcement	Effective date
Australia	May 2015	July 2017
New Zealand	August 2015	October 2016
Russia	December 2015 ⁽¹⁾	January 2017
Singapore	February 2018	January 2020

(1) Tabling of the bill.

The OECD recommends providing businesses at least six months between the announcement and the effective date of this type of measure.

■ **Implementation of a special registration system**

As recommended by the OECD, Québec will set up a special registration system that is sufficiently clear and accessible to enable the suppliers concerned to comply with their tax obligations easily.

In addition to simplifying this task for suppliers without a physical or significant presence in Québec, this will help maintain the integrity of the system by limiting the ability of these businesses to benefit, or enable other businesses to benefit, from unjustified tax refunds.

TABLE B.4

Key differences between the special registration system and the regular registration system

	Special system	Regular system
Threshold	Over \$30 000 per year in taxable supplies sold to Québec consumers	Over \$30 000 per year in taxable supplies
Invoice with registration number entitling clients to claim ITRs ⁽¹⁾	No	Yes
The supplier can claim ITRs on purchases	No	Yes
The supplier must collect sales tax	From consumers only	From all purchasers (consumers, businesses, public bodies, etc.)
Access to an online service tailored to suppliers outside Québec	Yes	No

(1) Input tax refunds.

These measures are expected to enable the Québec government to recover \$155 million over five years.

TABLE B.5

**Collection of QST by digital companies outside Québec
effective January 1, 2019⁽¹⁾**
(millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Collection of QST by digital companies outside Québec	—	7	28	35	40	45	155
– Movies, music, magazines	—	5	20	26	30	33	113
– Other	—	2	8	10	10	13	42

Note: Totals may not add due to rounding.

(1) This estimate takes into account foreign revenue but excludes revenue from other Canadian provinces and territories.

Sources: Revenu Québec and Ministère des Finances du Québec.

**OECD's recommendations regarding the collection of sales tax
in the context of e-commerce**

While acknowledging that this solution involves some obstacles, the OECD recommends in Action 1 of its BEPS project that foreign suppliers be required to register for the value-added tax and that they collect and remit the tax to the country of destination of the incorporeal property or services.

The OECD notes that the viability of this solution will depend on international coordination.

Among the main obstacles noted are the following:

- the difficulty of ensuring compliance with new obligations in a context where judgments may have to be enforced abroad;
- the difficulty that tax authorities will have in identifying foreign suppliers, controlling them and auditing them for compliance (risk of fraud);
- the difficulty of identifying purchasers;
- the potentially substantial administrative burden it will impose on foreign suppliers.

Against this backdrop, the OECD recommends setting up a simplified registration system that is sufficiently clear and accessible to allow foreign suppliers to comply with their tax obligations easily.

Source: Organisation for Economic Co-operation and Development, *Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report*, May 4, 2017, pp. 121-124

■ **Corporeal property from outside Canada**

With respect to online purchases of corporeal property from foreign suppliers, an existing agreement stipulates that the Canada Border Services Agency is responsible for collecting, on behalf of the Québec government, the QST applicable to non-commercial imports of property to Québec, that is, property imported by Québec individuals (consumers).

However, with the advent of e-commerce, postal administrations have been faced with a significant rise in the number of parcels going through customs clearance, and sales tax is charged on only a fraction of imported corporeal property.

For the short term, collecting sales tax at the borders remains the best way to charge QST on corporeal property from abroad. Although a few large companies make up the lion's share of online sales of incorporeal property and services, sales of corporeal property involve a large number of businesses of all sizes in many countries.

The Québec government will work with the federal government to improve the collection of sales tax at the borders. To this end, in the spring of 2018, a pilot project will be implemented to improve the parcel processing capacity of Canada Post's sorting centre in Montréal.

❑ Eliminating certain loopholes, notably with regard to international taxation

In the fight against aggressive tax planning, Québec has generally harmonized its tax legislation with Canadian tax legislation, including with regard to international taxation and in response to certain tax planning schemes.

In the budget speech on February 27, 2018, the Minister of Finance of Canada announced tax measures to fight abusive international tax avoidance. These measures primarily affect cross-border surplus stripping, foreign affiliates and time periods for issuing reassessments in certain cases.

For example, it has been observed that some internal reorganizations involving partnerships or trusts have been designed to circumvent existing provisions to counter cross-border surplus stripping.

To thwart these planning schemes, it has been proposed that comprehensive “look-through” rules be added for partnerships and trusts.

Changes have also been announced aimed at improving the applicable anti-avoidance rules in cases where taxpayers, often banks or other financial institutions, use sophisticated financial instruments in an attempt to gain a tax advantage by creating artificial losses that can be used against other income.

Amendments will be made to Québec's tax legislation to integrate these new measures.

❑ Restricting income sprinkling arrangements

Income sprinkling, sometimes referred to as “income splitting,” is a strategy that can be used by owners of private corporations to pay a portion of their income to family members with lower tax rates.

To discourage income splitting with minor children, the federal and Québec tax systems already sets out that certain types of income from which minor children benefit is subject to a special tax at the highest marginal rate. This tax is commonly referred to as the “tax on split income” or the “kiddie tax.” Such income is taxed as if it were paid to the corporation owner.

On December 13, 2017, the Department of Finance Canada released draft legislative proposals aimed at amending the *Income Tax Act* and the *Income Tax Regulations*,³ in particular regarding the tax treatment of sprinkled income.

The proposed changes widen the scope of application of the tax to include income split with adult individuals as well as other types of income. Therefore, in the circumstances concerned by the announcement, splitting income with adult family members will no longer generate a tax benefit for corporation owners.

Amendments will be made to Québec's tax legislation to incorporate these legislative proposals.

³ Department of Finance Canada, News Release 2017-124, “Government Simplifies Measures to Restrict Income Sprinkling,” December 13, 2017.

❑ Improving tax and corporate transparency via the Registraire des entreprises du Québec

One of the mandates of the Registraire des entreprises is to manage Québec's enterprise register so that it is available to citizens and regulatory bodies.

The enterprise register, which contains information regarding more than 900 000 companies, is the gateway to the legitimate economy. Registering is the first step for doing business in Québec.

However, the register is underused and the information it contains is not always in line with the needs of the public.

In addition, the obligation of pan-Canadian companies to register in several provincial registries can compromise the integrity of the information in Québec's registry.

— Companies do not always update their information in all registries, which compromises the reliability of this information.

In order to improve tax and corporate transparency, the Québec Economic Plan of March 2018 provides for the implementation of a series of measures in 2018-2019 that will affect the Registraire des entreprises. These measures, which are primarily focused on IT development, will mainly aim to:

- make it easier to use the enterprise register;
- improve the quality of information in the register;
- enable investigators from departments and bodies that use the register to work more efficiently.

Lastly, Québec has supported efforts to harmonize the various Canadian business registries during negotiations of the Canadian Free Trade Agreement. As a result, a tool aimed at improving the reliability of information in these registries will be tested.

To this end, additional appropriations of \$2.6 million in 2018-2019 and \$2.7 million in 2019-2020 have been planned for the Ministère du Travail, de l'Emploi et de la Solidarité sociale, which is responsible for the Registraire des entreprises. The sums earmarked for 2018-2019 will be drawn from the Contingency Fund.

❑ Rewarding tax informants

Being a tax informant can entail a significant personal, social or professional cost for the person providing the information. To encourage witnesses of harmful tax-related behaviour to notify Revenu Québec, the government will offer them a reward.

This measure will target abusive tax planning schemes for which at least \$100 000 can be recovered in taxes. The informant must also provide information on transactions that:

- constitute a sham, meaning they are designed to conceal from the tax authorities the true transaction carried out by the parties;
- lead to the application of the general anti-avoidance rule, which is aimed at preventing abusive tax avoidance practices.

This approach will complement the measures already taken by the Canada Revenue Agency in this regard, which are aimed at obtaining tax information on overseas activities.

The concept of a sham and the general anti-avoidance rule

The concept of a sham

A sham is a transaction or series of transactions designed to conceal the true nature of transactions or relations between the parties from the tax authorities. It therefore has an element of deception intended to create an illusion in order to mislead the tax authorities as to a taxpayer's identity or the actual nature of a transaction or series of transactions.

The general anti-avoidance rule

The general anti-avoidance rule (GAAR) is aimed at striking a balance between protecting the tax base and taxpayers' need for certainty when a line is drawn between legitimate tax planning and abusive tax avoidance.

GAAR's application is threefold.

- The first step consists in determining whether a transaction gives rise to a tax benefit.
- The second step consists in determining whether the transaction is an avoidance transaction, in the sense that it was not undertaken primarily for bona fide purposes—obtaining a tax benefit is not a bona fide purpose.
- The third step consists in determining whether the avoidance transaction is abusive.

These three conditions must be met for a tax benefit to be denied under GAAR.

When GAAR is applied, the legislation provides that the tax consequences to a taxpayer must be reasonably determined in the circumstances, in order to deny a tax benefit which, but for GARR, would result, directly or indirectly, from the avoidance transaction or from a series of transactions that includes the avoidance transaction.

❑ Reviewing Revenu Québec's voluntary disclosure program

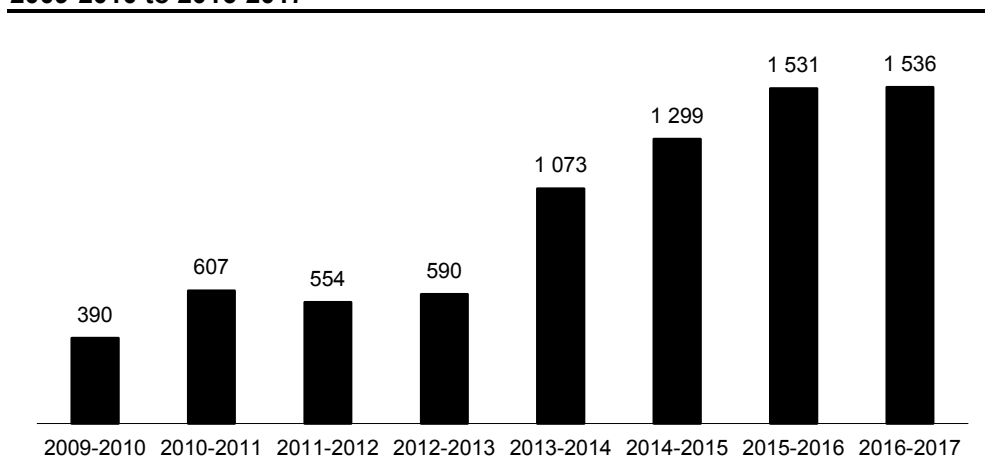
Revenu Québec currently administers a voluntary disclosure program, which enables taxpayers to voluntarily rectify any past errors and omissions, and to pay the amounts they owe.

- The voluntary disclosure program is a very effective tool. Since 2009-2010, it has enabled Québec to recover more than \$720 million, which the tax authorities might not have received otherwise.

Between 2009-2010 and 2016-2017, some 7 580 files have qualified for the program. The annual number of new files has followed an upward trend.

CHART B.3

Number of new voluntary disclosure files – 2009-2010 to 2016-2017



Source: Revenu Québec.

The Québec government has announced that it will review the current voluntary disclosure program in order to take into account:

- recent developments in the exchange of information between Canada and other jurisdictions, particularly with regard to the OECD's efforts related to base erosion and profit shifting;
- changes made by the federal government to Canada Revenue Agency's Voluntary Disclosures Program. These changes, which were announced in December 2017, aim to tighten the eligibility conditions of the federal program.

Consultations regarding changes to the parameters of Québec's program will be carried out with Revenu Québec in 2018-2019.

❑ **Supporting clients and workers to more effectively combat unreported work in the employment agency sector**

Criminal networks tied to employment agencies exploit vulnerable workers, often newcomers, generally by paying them in cash, which deprives them of the protections and employee benefits provided for in Québec.

- These agencies also neglect to report their income to the different governments.
- In doing so, they avoid paying the associated payroll taxes.

To support clients and workers, measures will be taken by the Ministère du Travail, de l'Emploi et de la Solidarité sociale in order to:

- increase the presence of business advisors and employment assistance representatives in areas where employment agencies actively recruit;
- inform the workers concerned regarding the rights and obligations of employers and workers in Québec, as well as the negative impacts of unreported work, including the loss of employee benefits and the right to last resort financial assistance.

The funding required for these new measures will be granted by the Ministère des Finances du Québec's Provision to increase any appropriation for initiatives concerning revenues.

The role of employment agencies in Québec's economy

The increased use of employment agencies in Québec's economy and their recent rise in numbers is partially due to:

- the need for companies to quickly recruit employees in order to support and maintain their production levels;
- the desire and need for work by many non-specialized workers, some of whom are newcomers to Québec.
 - This pool of non-specialized workers is currently on the rise due to the recent wave of asylum seekers.

The lack of experience in the Québec labour market, the language barrier, the need for a quick source of income and a limited knowledge of their rights and obligations are some of the factors that make newcomers to Québec more vulnerable. These individuals are therefore ideal targets for employment agencies with abusive behaviour.

As newcomers are anxious to find work, they are quickly solicited by the heads of employment agencies that, often unbeknownst to them, are fraudulent.

❑ Subjecting food trucks and trailers to mandatory billing via sales recording modules

Sales recording modules (SRMs) facilitate tax compliance by their users and improve the efficiency of Revenu Québec inspections and investigations.

- Currently, more than 21 000 restaurant establishments and bars use nearly 40 000 SRMs.
- Since this technological solution was implemented in 2010, Québec has increased its tax revenue by \$1.2 billion in total.

In the interest of fairness towards owners of established restaurants and to prevent unfair competition, food trucks and trailers will be subject to mandatory billing via an SRM.

As such, food trucks and trailers will have to:

- give customers a bill;
- produce this bill using an SRM.

Legislative amendments in this regard will be necessary. The goal is to implement this measure for the 2019 summer season.

To support food truck and trailer owners who will be required to use SRMs, the government will bring in a subsidy program to fund the acquisition, installation and updates to the equipment that are required for its installation.

This measure will be similar to those enabling the installation of SRMs in restaurant establishments and bars.

2. FOLLOW-UP OF ACTIONS CARRIED OUT

In addition to the measures announced for 2018-2019, the government has already implemented several actions to combat the use of tax havens and the underground economy, as well as initiatives to better regulate the digital economy.

2.1 Tax havens and the digital economy

The key measures put into place by the government in the wake of the Tax Fairness Action Plan are focused on achieving the following objectives:

- recovering the corporate income tax owed;
- collecting sales tax in the context of the digital economy;
- recovering the personal income tax owed;
- blocking access to government contracts for corporations and individuals that use abusive tax avoidance strategies;
- strengthening tax and corporate transparency.

❑ Recovering the corporate income tax owed

To tackle the challenges created by the use of tax havens by companies, the Québec government plans to rely on information collected through bilateral agreements between Canada and foreign jurisdictions and on the multilateral instruments recommended by the OECD.

Québec has asked the federal government to share tax and financial information obtained under BEPS project agreements and Canadian tax treaties.

- The BEPS project was developed by the OECD at the request of G20 nations and is aimed at reviewing national and international tax rules to ensure that profits are taxed where the economic activity that generates them is carried out and where value is created.

To analyze the information made available by the Canadian government, Québec created the Special Task Force on International Tax Planning, which is mandated to:

- ramp up tax audits of international activities, in collaboration with the Canada Revenue Agency;
- identify, document and analyze the international tax planning schemes used by both businesses present in Québec and Québec residents;
- recommend to the Ministère des Finances du Québec the actions to be taken to counter the schemes identified.

This group will consist of 75 new employees at Revenu Québec. These research and audit specialists will be mandated to:

- identify schemes, analyze information obtained and improve mechanisms for selecting files according to risk;
- propose changes to be made to tax policy as necessary.

The recruiting process is under way and the team will be operational in the next few months. Once the recruiting stage is complete, the addition of these new employees will double Revenu Québec's staff dedicated to tax havens and abusive tax planning files.

**Information sharing between Revenu Québec
and the Canada Revenue Agency**

With regard to international activities carried out by individuals or businesses operating in Québec, the CRA has agreed to provide new types of information to Québec. This information is key to combating aggressive tax planning and the use of tax havens involving taxpayers subject to Québec income tax, and will be collected via the following forms:

- *Country-by-Country Report*;¹
- *Standard for Automatic Exchange of Financial Account Information in Tax Matters*;¹
- *International Electronic Funds Transfer Report*;
- *Information Return of Non-Arm's Length Transactions with Non-Residents*;
- *Information Return Relating to Controlled and Not-Controlled Foreign Affiliates*;
- *Foreign Income Verification Statement*.

1 With the authorization of the countries concerned.

Moreover, during the Federal-Provincial-Territorial Meeting of Ministers of Finance in December 2017, a task force was created whose mandate is focused on combating the abusive tax planning strategies that are eroding the integrity of the Canadian tax base.

❑ Collecting sales tax in the digital economy

Part 1.2 of this section describes in detail the measures implemented by the Québec government regarding the collection of QST in the digital economy.

❑ Recovering the personal income tax owed

In order to minimize tax losses due to unreported investment income by individuals, the government has mandated the Special Task Force on International Tax Planning to analyze the information provided by the Canada Revenue Agency.

In addition, Québec is maintaining its voluntary disclosure program, which was recommended by the OECD and has proven to be effective. This program enables delinquent taxpayers to rectify their tax situation with Revenu Québec.

❑ Blocking access to government contracts for corporations and individuals that use abusive tax avoidance strategies

Since the fall of 2017, work has been under way to identify solutions to remove suppliers who have practiced abusive tax avoidance from the list of government-authorized suppliers. To this end, legislation will be amended to prevent taxpayers who have carried out a transaction or series of transactions for which a final assessment based on the general anti-avoidance rule is issued from entering into public contracts.

❑ **Strengthening tax and corporate transparency**

In an effort to strengthen tax and corporate transparency and thereby bolster the fight against aggressive tax planning, the Ministère des Finances du Québec and Revenu Québec have launched several initiatives aimed at:

- examining means to better counter tax schemes based on sham transactions;
- analyzing the use of nominee agreements for tax avoidance and tax evasion purposes;
- enhancing trust identification requirements;
- reinforcing the mandatory disclosure mechanism for certain tax planning schemes;
- obtaining additional information regarding international funds transfers.

Québec is also participating in a federal-provincial-territorial committee whose work is focused on enhancing the transparency of corporations and legal arrangements and improving the availability of information on beneficial ownership.

Measures implemented by the Québec government regarding tax and corporate transparency

In recent years, Québec has put in place a number of measures aimed at improving tax and corporate transparency and bolstering the fight against aggressive tax planning schemes.

Reflecting practices implemented by other OECD member countries, these measures have also aligned Québec's tax system with an emerging worldwide trend among the most proactive tax administrations with regard to integrity and the fight against abusive tax evasion.

Québec's efforts have helped identify and counter aggressive tax planning schemes. Below are a few of the measures implemented in this regard.

Mandatory disclosure of transactions presenting a high risk of tax avoidance

Failure to comply with this measure may result in the suspension of the limitation period regarding tax consequences arising from the undisclosed transaction and a penalty of up to \$100 000.

Introduction of a penalty for taxpayers and a penalty for promoters in cases where the general anti-avoidance rule applies

The tax avoidance penalties applicable to taxpayers and promoters are 50% (applicable to the amount of the tax benefit denied) and 100% (applicable to the amount of fees paid), respectively.

Three-year extension of the limitation period in cases where the general anti-avoidance rule applies

If a taxpayer carries out a transaction or series of transactions that come under the general anti-avoidance rule, the limitation period for applying the rule is extended by three years.

Preventive disclosure to avoid penalties and an extension of the limitation period for applying the general anti-avoidance rule

A taxpayer can avoid an extension of the limitation period for applying the general anti-avoidance rule and a penalty for the transaction if preventive disclosure of the transaction is made to Revenu Québec.

Clarification of the concept of a bona fide purpose with regard to applying the general anti-avoidance rule

A transaction can be exempt from the general anti-avoidance rule if it is demonstrated that it was primarily carried out for bona fide purposes, other than to obtain a tax benefit under the *Taxation Act*.

A clarification has been made to the general anti-avoidance rule specifying that obtaining a tax benefit under a Québec law other than the *Taxation Act*, under a law of another Canadian province or under a federal law is not considered a bona fide purpose.

2.2 Concerted actions to fight tax evasion

The initiatives taken by the government to promote integrity in the tax system and healthy competition rely on Revenu Québec's tax audit activities and on concerted actions to fight tax evasion by various government departments and bodies.

In 2017-2018, the government funded the following concerted actions:

- the fight against the illicit tobacco trade;
- the fight against unreported work in the construction sector;
- the fight against the illicit trade in alcoholic beverages;
- the fight against economic and financial crime;
- the fight against organized networks of unreported work;
- the expedited processing of special penal cases in the Court of Québec.

☐ **The fight against the illicit trade in tobacco products (ACCES tobacco)**

The ACCES⁴ tobacco committee⁵ aims to dismantle smuggling networks, recover the tax losses linked to the illicit trade in tobacco and increase revenue from the specific tax on tobacco products.

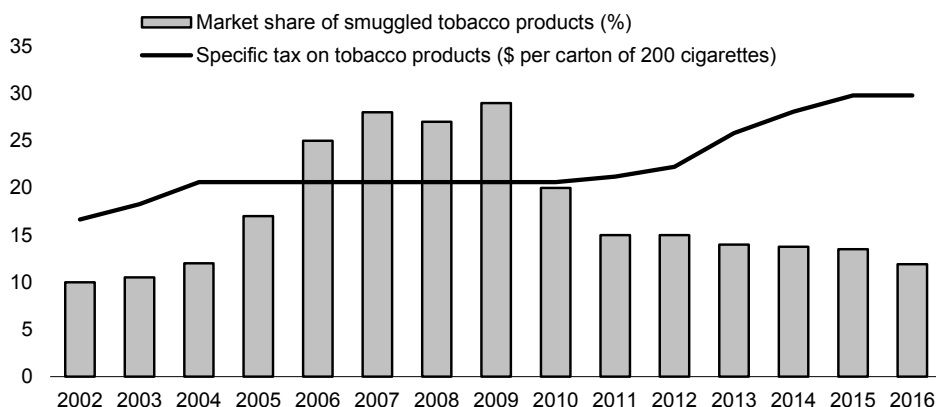
- The actions carried out by partners target all activities related to tobacco smuggling, from the supply of raw materials to the sale of tobacco products to consumers.
- Thanks to these concerted actions, the market share of smuggled tobacco products fell from almost 30% in 2009 to less than 12% in 2016, despite the fact that the specific tax on tobacco products was raised during that period.

⁴ Actions concertées pour contrer les économies souterraines (concerted actions to counter the underground economy).

⁵ ACCES tobacco brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, other Québec police forces, the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Directeur des poursuites criminelles et pénales, the Ministère de la Santé et des Services sociaux, the Ministère des Finances du Québec, as well as the Royal Canadian Mounted Police, the Canada Revenue Agency and the Canada Border Services Agency.

CHART B.4

**Change in market share of smuggled tobacco products and
in the rate of the specific tax on tobacco products**
(per cent and dollars per carton of 200 cigarettes)



Sources: Statistics Canada, Sûreté du Québec and Ministère des Finances du Québec.

The concerted actions of ACCES tobacco partners have helped to:

- increase the number of police interventions in the fight against smuggling networks, including neighbourhood networks;
- implement police surveillance of the main supply and transportation channels used by tobacco smugglers;
- adapt police interventions to the schemes used by smugglers;
- improve information sharing between different police forces and between departments and bodies taking part in these concerted actions across Québec.

In 2016-2017, the actions of the ACCES tobacco committee yielded a return of \$186.5 million.

Example of an intervention by ACCES tobacco

One of the areas in which ACCES tobacco partners have taken action is in the fight against the smuggling of raw tobacco.

In this regard, since 2009, the ACCES tobacco committee has had an investigative team coordinated by the Sûreté du Québec, which works with the Valleyfield detachment of the Royal Canadian Mounted Police. This team focuses on the border areas of Lake St. Francis, which is recognized as a tobacco smuggling hub.

The team's interventions specifically target the supply of raw tobacco to illegal factories.

Between April 1, 2017 and January 31, 2018, this team made 53 arrests and conducted 45 searches, which resulted in the seizure of 36 143 kg of loose tobacco, 6 250 Ziploc bags containing 200 cigarettes each, 32 vehicles and one boat.

These tobacco seizures, which represented the equivalent of more than 37.4 million cigarettes, are testament to the success of this approach involving the coordination of police forces in the fight against smuggling.

Sources: Sûreté du Québec and Ministère de la Sécurité publique.

❑ The fight against unreported work in the construction sector (ACCES construction)

The construction industry makes up a major share of investment spending in Québec. It is also strongly impacted by tax evasion, unreported work and non-compliance with other legal obligations.

The ACCES construction committee⁶ was created to encourage the various departments and bodies concerned with tax evasion and unreported work in this sector to maximize information sharing and increase the impact of their interventions.

These actions yielded a return of \$73.6 million in 2016-2017. This was due in part to fines paid by delinquent entrepreneurs and recovered employee contributions.

The funding granted to ACCES construction partners has also helped them improve mechanisms for sharing information, which has facilitated joint interventions.

Example of an intervention by ACCES construction

The Commission de la construction du Québec (CCQ) carries out more than 40 000 construction site visits per year. In some cases, they are the result of information reported by ACCES construction committee partners.

For example, as part of an intervention led by the CCQ, a significant amount of shared information implicated an entrepreneur who was suspected of creating unfair competition for tiling work in new buildings in downtown Montréal.

The CCQ therefore deployed its teams to three different work sites and demanded an inspection of the books of the company concerned. Several violations were identified and the appropriate recourse was taken.

- Penal proceedings were authorized by the Directeur des poursuites criminelles et pénales for several violations, in particular for not holding a competency certificate and for failing to report hours worked to the CCQ. The company was found guilty of all violations.
- In terms of civil proceedings, five claims were sent to the employer and clients concerned for a total amount of \$845 000. The claims aimed to recover unpaid wages and various employer contributions required by legislation, regulation and collective agreements in effect in the industry.

The CCQ's intervention enabled \$521 655 of the total amount to be recovered. Measures are under way to recover the remaining amounts.

Source: Commission de la construction du Québec.

⁶ ACCES construction brings together the Commission de la construction du Québec, the Régie du bâtiment du Québec, the Commission des normes, de l'équité, de la santé et de la sécurité du travail, Revenu Québec, the Ministère du Travail, de l'Emploi et de la Solidarité sociale, the Directeur des poursuites criminelles et pénales and the Ministère des Finances du Québec.

❑ **The fight against the illicit trade in alcoholic beverages (ACCES alcohol)**

The ACCES alcohol committee ⁷ was created to allow for concerted action against the illicit trade in alcoholic beverages, which jeopardizes public safety and leads to tax losses.

ACCES alcohol enables police forces to carry out the following actions across Québec:

- systematic inspections of establishments holding an alcohol permit for consumption on the premises in order to detect offences involving the trade in alcoholic beverages;
 - In general, police forces conduct inspections annually in half of all licensed establishments in Québec.
- investigations to detect clandestine drinking establishments and dismantle illegal networks for importing, manufacturing and distributing alcoholic beverages and illegal gaming houses.

Partner initiatives encourage sound and fair competition in the alcoholic beverage industry through interventions at every level of the alcohol supply chain in the province.

In 2016-2017, the concerted actions of ACCES alcohol partners yielded a return of \$83.3 million.

Example of an intervention by ACCES alcohol
<p>In 2018, the Service de police de la Ville de Québec closed a clandestine bar on Côte d'Abraham in the city of Québec. The shutdown occurred as part of the ACCES alcohol program. In addition to posing a threat to public safety, the establishment did not have a liquor permit.</p> <p>Every year, investigations under the ACCES alcohol program yield many results, including the shutdown of establishments operating without the required permits that sell alcohol illegally.</p>

Sources: Service de police de la Ville de Québec and Ministère de la Sécurité publique.

⁷ ACCES alcohol brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, other Québec police forces, the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, the Directeur des poursuites criminelles et pénales, Revenu Québec, the Régie des alcools, des courses et des jeux, the Société des alcools du Québec and the Ministère des Finances du Québec.

❑ The fight against economic and financial crime (ACCEF)

The ACCEF committee⁸ was set up in 2004, after a number of international financial scandals had been brought to light.

In subsequent years, other types of crime have emerged. The actions of committee partners have therefore extended beyond the mission of the Autorité des marchés financiers. The ACCEF committee's three current components include:

- the fight against tax crimes, which helps put an end to complex tax evasion and money laundering schemes;
- the fight against crimes committed on financial markets, which focuses on schemes whose victims are usually investors;
- the fight against money laundering, which aims to conceal the source of illegally acquired money.

In 2016-2017, the actions of the ACCEF committee yielded a return of \$34.8 million.

As strategies related to economic and financial crime evolve, the partners concerned continue to examine how to adapt their approach in fighting these types of crime.

Example of an intervention by ACCEF

In 2017, the Autorité des marchés financiers issued a warning regarding solicitations associated with PlexCoin, a type of cryptocurrency.

- The investments collected by the company, which were intended for business development, offered returns of more than 1 300% in less than 35 days. However, these investments were actually used to finance the personal expenses of the company's owner.

Unlike fiat money, which is legal tender, cryptocurrencies such as Bitcoin, Ethereum and Litecoin are not issued by a government or a central bank. As such, they are not regulated and have no legal framework to protect consumers.

This lack of regulation encourages a number of illegal activities, including tax fraud and money laundering. Cryptocurrencies allow for large sums of money to be transferred abroad, which makes it easier to invest them and avoid reporting the income earned on their sale.

The anonymity offered by virtual currencies helps conceal the source and destination of transfers, making it more difficult to track users.

Source: Autorité des marchés financiers.

⁸ Actions concertées contre les crimes économiques et financiers (concerted action against economic and financial crime). This committee brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, the Ministère de la Sécurité publique, Revenu Québec, the Directeur des poursuites criminelles et pénales, the Autorité des marchés financiers and the Ministère des Finances.

❑ The fight against organized networks of unreported work

Since 2011, the Ministère du Travail, de l'Emploi et de la Solidarité sociale and its partners, the Commission des normes, de l'équité, de la santé et de la sécurité du travail, Revenu Québec and the Sûreté du Québec, have worked together to combat criminal networks linked to employment agencies.

- These concerted actions have helped identify these networks, recover sums owed to the government, take deterrent action and support the entry into the legal labour market of people who have performed unreported work.
- These networks exploit vulnerable workers, often newcomers, generally by paying them in cash, thereby depriving them of the protections and employee benefits provided for in Québec.
- These fraudulent agencies also neglect to report their income to the different governments, which generates significant tax losses for the Québec government.

Interventions carried out in 2016-2017 yielded a return of \$12.1 million.

Example of an intervention as part of the fight against organized networks of unreported work

The NOLISER investigation, which was conducted in 2017 by the Ministère du Travail, de l'Emploi et de la Solidarité sociale, the Sûreté du Québec and Revenu Québec, targeted a fraudulent employment agency that was doing business with more than 30 clients involved in various sectors of Québec's economy.

One of the fraud schemes consisted in hiring workers under the table, primarily recipients of last resort financial assistance. Some 3 800 individuals performing unreported work were identified in this investigation, more than 800 of whom were recipients of last resort financial assistance. Administrative claims tied to these schemes are estimated at \$1.6 million.

A total of 16 searches were carried out simultaneously by the three investigation partners.

The Ministère du Travail, de l'Emploi et de la Solidarité sociale is now focused on informing and supporting the non-compliant workers to help them integrate into the legal labour market.

Source: Ministère du Travail, de l'Emploi et de la Solidarité sociale.

❑ Expedited processing of special penal cases⁹ in the Court of Québec

The actions described above have led to a number of searches and arrests. In addition, these cases are often complex and generate a high volume of evidence, which exerts additional pressure on the Québec judicial system.

In response to this problem, the government established the Special Penal Cases Division in 2015-2016.

This project enabled the Ministère de la Justice, the Directeur des poursuites criminelles et pénales and the Ministère de la Sécurité publique to expediate the processing of penal cases in the Court of Québec.

— The capacity to process penal cases within a reasonable amount of time ensures the conviction of individuals who break laws, in particular tax laws and laws governing Québec's financial sector, and make it possible to recover unpaid amounts.

In 2016-2017, the Special Penal Cases Division yielded a return composed of penal income of \$80.5 million.

In addition, this project led to a reduction in the median processing time for penal cases. In 2017-2018, it was reduced by 23 days compared to the previous year and by 40 days compared to two years prior.

Reducing processing times for penal cases remains a priority. As of 2018-2019, funding for the Special Penal Cases Division will come from the appropriations allocated to the Ministère de la Justice and the Ministère de la Sécurité publique, which will be increased accordingly.

⁹ Special penal cases are those that are complex or lengthy.

❑ Results of concerted actions in the fight against tax evasion

To enable government departments and bodies facing similar issues related to tax evasion to work in partnership to maximize the results of their fight against this phenomenon, the Ministère des Finances du Québec grants them funding from the Provision to increase any appropriation for initiatives concerning revenues (the Provision).

— Partners therefore benefit from the expertise of other committee members, establish policy directions, analyze certain legal aspects and improve information sharing.

In 2016-2017, concerted actions to fight tax evasion funded by the Provision yielded a return of over \$470 million.

— The return per dollar invested in projects funded by the Provision was \$9.90.

TABLE B.6

Total return on concerted actions funded by the Provision to increase any appropriation for initiatives concerning revenues (millions of dollars, unless otherwise indicated)

	2016-2017
ACCES tobacco	186.5
ACCES construction	73.6
ACCES alcohol	83.3
ACCEF	34.8
Fight against organized networks of unreported work	12.1
Special Penal Cases Division	80.5
TOTAL	470.8
Funding granted to partners for concerted actions	47.6
RETURN PER DOLLAR INVESTED (DOLLARS)	9.90

❑ Budget envelope

In 2017-2018, the Ministère des Finances du Québec planned to allocate \$51.7 million to fund concerted actions to fight tax evasion.

For 2018-2019, the budget envelope of the Provision will total \$58.8 million. To this end, additional appropriations will be allocated to the Ministère des Finances du Québec.

TABLE B.7

Funding from the Provision to increase any appropriation for initiatives concerning revenues (millions of dollars)

	2017-2018	2018-2019 ⁽¹⁾
ACCES tobacco	13.7	—
ACCES construction	7.6	—
ACCES alcohol	5.8	—
ACCEF	14.0	—
Fight against organized networks of unreported work	1.3	—
Special Penal Cases Division ⁽²⁾	5.3	—
Other	4.0	—
TOTAL	51.7	58.8

(1) The breakdown of funding by project for 2018-2019 is not available since the Ministère des Finances du Québec is currently analyzing funding requests by government departments and bodies.

(2) As of 2018-2019, the Special Penal Cases Division will be funded by the appropriations of the Ministère de la Justice and the Ministère de la Sécurité publique.

APPENDIX: SOURCES OF TAX LOSSES

Tax revenue plays a key role in funding public services. However, some taxpayers manage to avoid certain tax obligations, thereby depriving the government of a portion of the revenue it would otherwise receive.

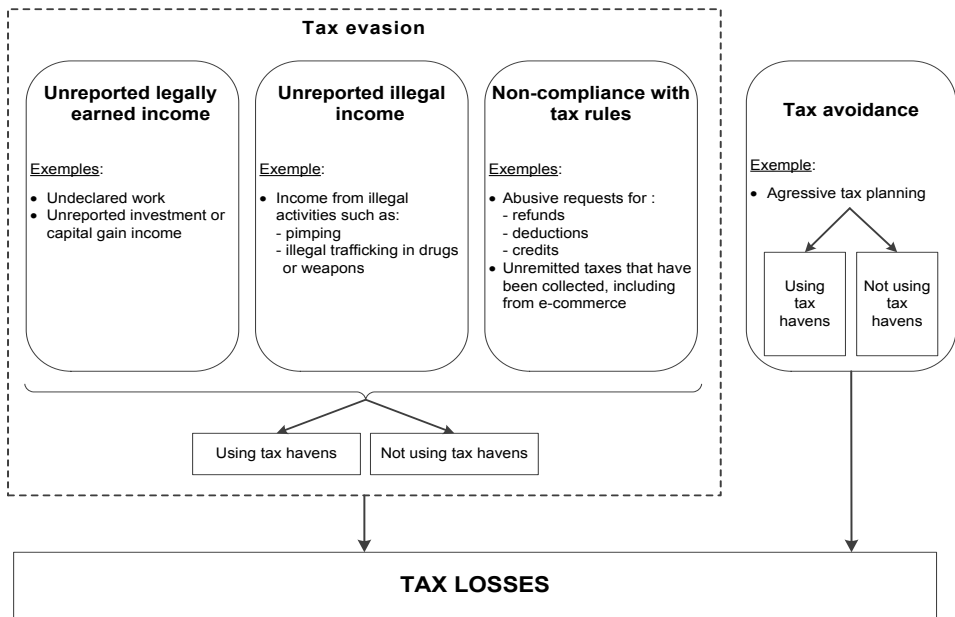
When taxpayers, whether individuals or businesses, fail to meet their tax obligations, this results in tax losses.

Tax losses stem from four separate sources: non-reporting of legal income, concealment of illegal income, failure to obey tax rules and tax avoidance.

The first three sources constitute tax evasion and are all the result of illegal acts. The fourth source, tax avoidance, is the result of an interpretation of legislation that approaches the limits of legality.

ILLUSTRATION B.2

Origin of tax losses



Description of tax loss sources

Unreported legally earned income

The first source of tax loss is legally earned income that is either totally or partially unreported by taxpayers.

The means of earning this income is legal but failing to report all or part of it for income tax purposes is not.

When the unreported income is earned from employment, it is considered undeclared work. It can also come from unreported investments or capital gains, primarily in tax havens.

Unreported illegal income

The second source of tax loss is unreported illegal income.

Income from illegal and criminal activities is taxable under tax legislation. Given its nature, the income generated by this type of activity is rarely reported, leading to tax loss.

Non-compliance with tax rules

The third source is non-compliance with tax rules.

This happens when taxpayers fraudulently request refunds, deductions or credits based on false invoices, for example, or do not remit the taxes normally collected in the course of their activities.

Tax avoidance

The fourth source is tax avoidance. This category of tax loss involves interpreting tax legislation in a manner that borders on the illegal by operating within the letter but not the spirit of the law.

This source includes aggressive tax planning that reduces income tax through often complex transactions that obscure the fact that the tax reduction arrangement is not consistent with the spirit of the law.

Tax evasion or tax avoidance strategies stemming from any of these four sources can be carried out with or without the use of tax havens.

- Tax havens shield profits earned as a result of tax evasion or avoidance by making them difficult to detect.

Tax havens are usually jurisdictions with a lack of transparency in the operation of their tax system and either very low or no tax rates.

- For example, laws regarding bank secrecy may be very strict, thereby encouraging foreign taxpayers to take advantage of them for their own benefit.

Section C

CANNABIS FRAMEWORK

1. Cannabis framework from a public health perspective.....	C.3
1.1 The Société québécoise du cannabis.....	C.4
1.2 Funding structure	C.5
1.3 Creation of the ACCES cannabis committee.....	C.11
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1. CANNABIS FRAMEWORK FROM A PUBLIC HEALTH PERSPECTIVE

On April 13, 2017, the federal government tabled Bill C-45 on the legalization of cannabis to the House of Commons. While the bill provides for a federal system for regulating cannabis production, it leaves the responsibility of regulating the distribution and sale of the product to the provinces.

Cannabis is expected to be legalized in the second half of 2018. Although the consumption of cannabis will become legal, it is important to avoid trivializing or normalizing its use due to the risks it poses to people's health and safety.

In order to mitigate these risks, the Québec government is currently putting in place a number of measures to regulate cannabis, which will direct current adult users to a safer, legal market without encouraging demand for the product.

Following consultations with experts and citizens, the Québec government tabled Bill 157, *An Act to constitute the Société québécoise du cannabis, to enact the Cannabis Regulation Act and to amend various highway safety-related provisions* in November 2017. In particular, this bill provides for:

- the creation of the Société québécoise du cannabis, a subsidiary of the Société des alcools du Québec, whose mission would be to ensure the sale of cannabis from a public health protection perspective;
- a structure for funding government measures related to cannabis while ensuring the responsible and transparent use of revenue generated by the sale and taxation of cannabis.

In addition, the government plans to create the ACCES¹ cannabis committee to combat the illicit cannabis trade, which will help reduce access to cannabis for young people.

Lastly, the government plans to offer additional assistance to the municipalities to ensure that it meets all of their needs related to the legalization of cannabis.

¹ Actions concertées pour contrer les économies souterraines (concerted actions to counter the underground economy).

1.1 The Société québécoise du cannabis

The bill provides for the establishment of the Société québécoise du cannabis, a subsidiary of the Société des alcools du Québec, whose mission would be to ensure the distribution and retail of cannabis from a public health protection perspective.

- This model will enable the government to achieve its objectives by benefiting from the knowledge and expertise of the Société des alcools du Québec regarding the responsible sale of products intended for adult consumption.

The rollout of Société québécoise du cannabis outlets is expected to be carried out gradually. A limited number of outlets will be open at the time of legalization; thereafter, the rollout will continue in a manner that ensures access to current adult consumers.

- By the end of the rollout, points of sale will be spread across the entire province.
- Minors will not be allowed to access Société québécoise du cannabis outlets.

In addition, an online sales platform is expected to be implemented at the outset of cannabis legalization, thereby enabling access to the cannabis products offered by the Société québécoise du cannabis in all regions of Québec.

- Reliable procedures for checking purchasers' ages will be put in place to prevent cannabis products from being purchased by or delivered to minors.

1.2 Funding structure

In December 2017, during the Federal-Provincial-Territorial Meeting of Ministers of Finance, a coordinated approach to taxing cannabis was agreed upon. A formal agreement is currently being negotiated to give effect to the coordination agreement.

The Québec government has confirmed its participation in the coordinated approach to taxing cannabis. It has therefore agreed to enter into an agreement with the federal government under which Québec will receive revenue equivalent to the value of an additional excise duty on cannabis intended for sale in Québec.

Coordinated cannabis taxation agreement

The coordinated cannabis taxation agreement currently being negotiated with the federal government is expected to stipulate that:

- the total excise duty applicable to cannabis products will correspond to the greater of \$1 per gram, or 10% of the producer's sale price, and the provincial component of this excise duty will be 75%;
- Québec's component of the excise duty will apply to all cannabis products intended for consumption, use or sale in Québec;
- the Minister of National Revenue will apply and enforce the coordinated tax on cannabis payable.

The federal government's share of revenue from the excise duty may not exceed \$100 million per year for Canada as a whole. Under this agreement, the provinces will receive 100% of the excise duty above that amount.

This agreement, which is expected to remain in effect for two years, aims to ensure that the prices of legal products are competitive with those of illegal products.

The Québec government will therefore receive revenue from a federal excise duty applied to cannabis products sold in Québec.

— This revenue is expected to reach \$23 million in 2018-2019 and \$50 million in 2019-2020.

TABLE C.1

Revenue generated by the excise duty on cannabis sold in Québec
(millions of dollars)

	2018-2019	2019-2020
Québec's share (75%)	23	50
Federal government's share (25%)	8	17
Total revenue	31	67

Note: The effective date of the legalization of cannabis for non-medical purposes has not yet been announced by the federal government, which has not adopted the related bill. The forecast is based on a theoretical effective date of September 1, 2018.

As the government's objective is to mitigate the risks associated with the legalization of this product, the revenue generated by the sale and taxation of cannabis will be used in a responsible and transparent manner. To accomplish this, the bill provides for the creation of two special funds:

- the Cannabis Sales Revenue Fund;
- the Cannabis Prevention and Research Fund.

❑ The Cannabis Sales Revenue Fund

The Cannabis Sales Revenue Fund will come under the authority of the Minister of Finance.

All revenue generated by the sale of cannabis products, as well as from additional excise duties, will be deposited in this fund.

From a public health and safety perspective, expenditures from this fund will finance drug-related prevention and monitoring activities, which will be primarily led by:

- the Ministère de la Santé et des Services sociaux (oversight, research, prevention, etc.);
- the Ministère de la Sécurité publique (monitoring, regulatory compliance, police training on impaired driving, road safety, etc.);
- the Ministère des Affaires municipales et de l'Occupation du territoire (compensation for municipal spending, etc.);
- the Ministère des Transports, de la Mobilité durable et de l'Électrification des transports du Québec (road safety).

The bill stipulates that at least half of the sums deposited in the Cannabis Sales Revenue Fund must be deposited in the Cannabis Prevention and Research Fund. For the first five years, at least \$25 million per year will be deposited in the Cannabis Prevention and Research Fund.

TABLE C.2

Illustration of the financial framework of the Cannabis Sales Revenue Fund
(millions of dollars)

	2018-2019	2019-2020
Revenue		
Québec's component of the excise duty	23	50
Amounts paid as dividends – Société québécoise du cannabis	—	—
Other revenue (appropriations, gifts, legacies, etc.)	32	—
Total revenue	55	50
Expenditures		
Cannabis Prevention and Research Fund	–25	–25
Elimination of deficit – Société québécoise du cannabis	–9	—
Other expenditures (MSP ⁽¹⁾ , MAMOT ⁽²⁾ , MTMDET ⁽³⁾ , etc.)	–21 ⁽⁴⁾	–25
Total expenditures	–55	50
SURPLUS (DEFICIT)	—	—

(1) Ministère de la Sécurité publique.

(2) Ministère des Affaires municipales et de l'Occupation du territoire.

(3) Ministère des Transports, de la Mobilité durable et de l'Électrification des transports.

(4) This amount does not include funding related to the ACCES cannabis committee. In 2018-2019, this committee will be funded by the Provision to increase any appropriation for initiatives concerning revenues.

The financial impact of cannabis legalization will be taken into account in the government's funding framework once assent is given to the *Act to constitute the Société québécoise du cannabis*, to enact the *Cannabis Regulation Act* and to amend various highway safety-related provisions, as well as to the *Controlled Drugs and Substances Act*, the *Criminal Code* and other acts from the federal government.

❑ Cannabis Prevention and Research Fund

The Cannabis Prevention and Research Fund will come under the authority of the Minister of Health and Social Services. In particular, the fund will enable the financing of:

- monitoring and research activities and programs regarding the effects of cannabis on public health;
- prevention activities and programs regarding the harmful effects of cannabis use;
- curative care related to cannabis use.

At least \$25 million per year will be allocated to prevention efforts, primarily to inform the public about the risks of cannabis use and to prevent young people from being exposed to this product.

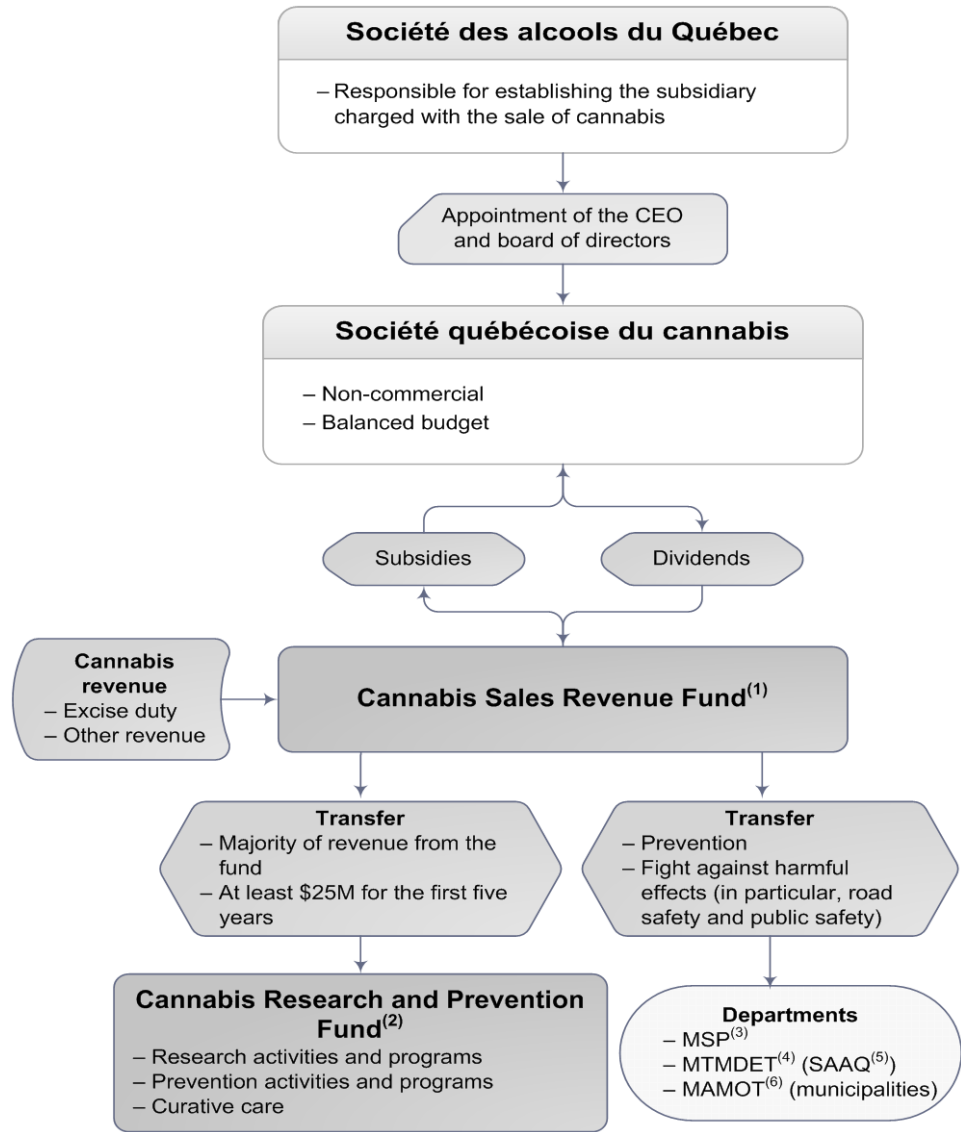
TABLE C.3

Illustration of the financial framework of the Cannabis Prevention and Research Fund

(millions of dollars)

	2018-2019	2019-2020
Revenue	25	25
Expenditures	-25	-25
SURPLUS (DEFICIT)	—	—

Diagram of the funding structure



(1) Under the responsibility of the Minister of Finance of Québec.

(2) Under the responsibility of the Minister of Health and Social Services.

(3) Ministère de la Sécurité publique.

(4) Ministère du Transport, de la Mobilité durable et de l'Électrification des transports.

(5) Société de l'assurance automobile du Québec.

(6) Ministère des Affaires municipales et de l'Occupation du territoire.

1.3 Creation of the ACCES cannabis committee

The Québec government plans to establish the ACCES² cannabis committee to combat the illicit trade in cannabis and thereby:

- reduce access to cannabis for young people in order to protect them from the risks of using this substance;
- direct current adult consumers to a safer, legal market.

The actions of ACCES cannabis partners will help combat cannabis smuggling across Québec at every stage of the supply chain, from illegal production to neighbourhood networks.

To this end, the Québec Economic Plan of March 2018 provides for funding of up to \$10 million in 2018-2019 for ACCES cannabis partners.

- This funding will be granted by the Provision to increase any appropriation for initiatives concerning revenues of the Ministère des Finances du Québec. It will enable committee partners to carry out initiatives aimed at fighting smuggling at the outset of the legalization of cannabis.

The ACCES cannabis committee partners will include the Sûreté du Québec, the Service de police de la Ville de Montréal, the Service de police de la Ville de Québec, other Québec police forces, the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Directeur des poursuites criminelles et pénales, and the Ministère des Finances du Québec.

- In the coming years, additional partners may join the ACCES cannabis committee in order to adapt the fight against the illicit cannabis trade to the strategies used by smugglers.

² Actions concertées pour contrer les économies souterraines (concerted actions to counter the underground economy).

Advantages of concerted actions to combat smuggling

The ACCES alcohol and ACCES tobacco committees, which were established in 1996 and 2001, respectively, have proven to be effective in combatting smuggling through the concerted actions of the various partners concerned.

These partners benefit from the expertise of other committee members, which varies according to their assigned roles, responsibilities and powers.

In addition, the concerted efforts of these committees' partners enable them to:

- establish policy directions in the fight against smuggling;
- identify key areas for investigative unit interventions, ensure their implementation and carry out follow-up;
- analyze certain legal aspects of investigative unit operations and propose legislation amendments as needed;
- improve information sharing among the various partners;
- identify strategies used by smugglers, observe related trends and adapt anti-smuggling measures accordingly;
- help develop and improve training for police forces and other partners concerned;
- analyze anti-smuggling measures in place in other jurisdictions, implement them as needed and quickly inform the partners concerned.

1.4 Additional support to the municipalities

The municipalities have informed the government of their financial needs related to the legalization of cannabis. In order to meet these additional needs, they have requested a portion of the revenue generated by cannabis.

According to the Québec government's preferred approach, revenue from the sale of cannabis will have to be used to:

- minimize the effects and health risks associated with cannabis use;
- ensure public safety and combat smuggling;
- direct consumers to the legal market.

The needs expressed by the municipalities are clearly in line with these objectives. The municipalities will therefore receive a portion of the amounts intended for:

- police forces in order to train staff on impaired driving and to acquire the necessary tools for drug detection;
- activities related to the ACCES cannabis committee. The police will need to receive standardized training in this regard.

Furthermore, in order to meet all of the needs of the municipalities related to the legalization of cannabis, the government announces that \$10 million per year will be granted to the municipalities through the Cannabis Sales Revenue Fund.

- Discussions will be held with municipal partners to establish the terms and conditions associated with this funding, while respecting municipal autonomy and meeting the government's objectives related to drug use and the fight against its harmful effects.
- This funding will be granted for two years, which is the same duration expected for the coordinated cannabis taxation agreement entered into with the federal government.
- This assistance will be added to the sums allocated for achieving government objectives with regard to cannabis regulation.

The municipalities will therefore benefit from financial support of more than \$60 million over two years.

TABLE C.4

Support to the municipalities
(millions of dollars)

	2018-2019	2019-2020
Support to the municipalities		
– Public safety expenditures ⁽¹⁾	–16	–26
– Additional support to the municipalities	–10	–10
Total – Support to the municipalities	–26	–36
Sources of funding		
– Cannabis Sales Revenue Fund	13	24
– Budgetary appropriations	13	12
Total – Sources of funding	26	36
DIFFERENCE	—	—

(1) These amounts include funding of the ACCES cannabis committee.

Section D

REPORT ON THE APPLICATION OF THE LEGISLATION RESPECTING A BALANCED BUDGET AND THE GENERATIONS FUND

1. The <i>Balanced Budget Act</i>.....	D.3
1.1 Current stipulations and requirements of the Act	D.3
1.2 Budgetary balance within the meaning of the <i>Balanced Budget Act</i>	D.4
1.3 Stabilization reserve.....	D.7
2. The <i>Act to reduce the debt and establish the Generations Fund</i>	D.9
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2.3 Use of the Generations Fund to repay maturing borrowings.....	D.13
APPENDIX: The revised accounting standard on transfer payments	D.15

1. THE *BALANCED BUDGET ACT*

Pursuant to 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 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.

Under the *Balanced Budget 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.

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 a 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.

The Act also established a stabilization reserve in order to facilitate the government's multi-year budget planning and, subsidiarily, to allow sums to be deposited in the Generations Fund. Any surpluses recorded for a fiscal year are automatically allocated to this reserve whose main purpose is to maintain a balanced budget.

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 Budgetary balance within the meaning of the *Balanced Budget Act*

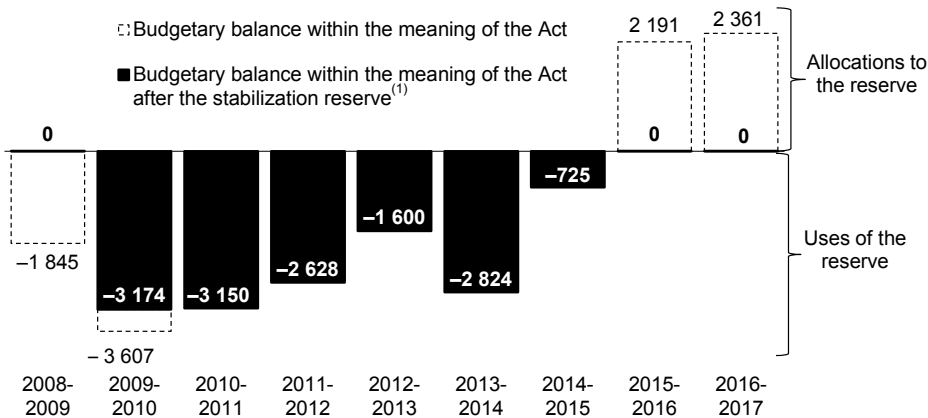
Under the *Balanced Budget Act*, the objectives of the Act are achieved if the budgetary balance, calculated in accordance with the Act, is zero or positive. Table D.1 shows the components for establishing the budgetary balance within the meaning of the Act.¹

Budgetary balance within the meaning of the Act was maintained for fiscal 2008-2009. From 2009-2010 to 2014-2015, the budgetary balance was a deficit, as allowed under the Act.

In 2015-2016 and 2016-2017, a balanced budget was achieved. Recorded surpluses of \$2.2 billion and \$2.4 billion, respectively, were entirely allocated to the stabilization reserve in accordance with the Act, bringing the budgetary balance calculated after taking the reserve into account to zero for each fiscal year.

CHART D.1

Budgetary balance – 2008-2009 to 2016-2017 (millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act* that takes into account allocations to the stabilization reserve and uses of it in order to maintain a balanced budget. From 2010-2011 to 2014-2015, there were no operations in the stabilization reserve.

¹ The budgetary data presented throughout this section for 2017-2018 and subsequent years are forecasts.

Budgetary balance within the meaning of the Act

The budgetary balance within the meaning of the *Balanced Budget Act* corresponds essentially to the surplus or deficit reported in the Public Accounts (book balance) minus the amount of revenues dedicated to the Generations Fund and adjusted to take certain accounting changes into consideration.

The Act allows the stabilization reserve to be taken into account in order to assess the achievement of a balanced budget. Therefore, in a situation where the calculated budgetary balance is a deficit, the reserve can be used to balance the budget without requiring additional actions, such as spending reductions or revenue increases. The budgetary balance thus obtained corresponds to the budgetary balance within the meaning of the Act after taking into account the stabilization reserve.

TABLE D.1

Budgetary balance within the meaning of the *Balanced Budget Act*
(millions of dollars)

Fiscal year	Surplus (deficit) reported in the public accounts ⁽¹⁾	Generations Fund	Accounting changes and other	Budgetary balance within the meaning of the Act	Stabilization reserve			Budgetary balance within the meaning of the Act after reserve ⁽²⁾
					Annual surplus	Allocations	Uses	
2008-2009	-1 258	-587	—	-1 845	—	-109 ⁽³⁾	1 845	—
2009-2010	-2 940	-725	58 ⁽⁴⁾	-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	-961	1 876 ⁽⁷⁾	-1 600	—	—	—	-1 600 ⁽⁸⁾
2013-2014	-1 703	-1 121	—	-2 824	—	—	—	-2 824 ⁽⁸⁾
2014-2015	136	-1 279	418 ⁽⁴⁾	-725	—	—	—	-725
2015-2016	3 644	-1 453	—	2 191	2 191	-2 191	—	—
2016-2017	4 362	-2 001	—	2 361	2 361	-2 361	—	—
2017-2018	3 142	-2 292	—	850	850	-850	—	—
2018-2019	904	-2 491	—	-1 587	—	—	1 587	—
2019-2020	1 771	-2 707	—	-936	—	—	936	—
2020-2021	2 512	-2 991	—	-479	—	—	479	—
2021-2022	3 265	-3 265	—	—	—	—	—	—
2022-2023	3 502	-3 502	—	—	—	—	—	—

(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 the stabilization reserve and uses of it in order to maintain a balanced budget.

(3) 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.

(4) The *Balanced Budget Act* stipulates that the budgetary balance must be adjusted to take into account certain accounting changes resulting in particular 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).

(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) The result of \$1.9 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant is excluded from the calculation of the budgetary balance for 2012-2013, in accordance with the Act.

(8) The budgetary deficits of \$1.6 billion and \$2.8 billion recorded for 2012-2013 and 2013-2014, respectively, are allowed pursuant to the *Balanced Budget Act*.

1.3 Stabilization reserve

Under the *Balanced Budget Act*, a recorded surplus, that is, a budgetary balance that is greater than zero, must be allocated to the stabilization reserve.

This reserve is a budget tool created to facilitate multi-year planning of the government's financial framework. It must be used first and foremost to keep the budget balanced and, subsidiarily, it may be used to reduce the debt through deposits in the Generations Fund.

The balance of the stabilization reserve is adjusted on the basis of recorded surpluses allocated to the reserve or sums used from the reserve for each fiscal year.

In 2015-2016 and 2016-2017, recorded surpluses of \$2.2 billion and \$2.4 billion, respectively, were allocated to the stabilization reserve in accordance with the *Balanced Budget Act*. As at March 31, 2017, the balance of the stabilization reserve stood at \$4.6 billion.

As part of the March 2018 Québec Economic Plan, for fiscal 2017-2018, the government forecasts a surplus of \$850 million, which will be allocated to the stabilization reserve. The balance of the stabilization reserve is expected to stand at \$5.4 billion as at March 31, 2018.

For fiscal 2018-2019 to 2020-2021, the government plans to use a sum of \$3.0 billion from the stabilization reserve to keep the budget balanced.

As at March 31, 2021, the balance of the stabilization reserve is expected to stand at \$2.4 billion. This sum will enable the government to cope with a moderate economic slowdown in the coming years, equivalent to a negative impact of about 4% of GDP on own-source revenue.

TABLE D.2

Operations of the stabilization reserve (millions of dollars)

Fiscal year	Balance, beginning of year	Allocations	Uses		Balance, end of year
			Balanced budget	Generations Fund	
2015-2016	—	2 191	—	—	2 191
2016-2017	2 191	2 361	—	—	4 552
2017-2018	4 552	850	—	—	5 402
2018-2019	5 402	—	-1 587	—	3 815
2019-2020	3 815	—	-936	—	2 879
2020-2021	2 879	—	-479	—	2 400
2021-2022	2 400	—	—	—	2 400
2022-2023	2 400	—	—	—	2 400

2. THE ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND

2.1 Debt reduction objectives

The following debt reduction objectives are set forth in the *Act to reduce the debt and establish the Generations Fund* for fiscal 2025-2026:

- the gross debt must not exceed 45% of GDP;
- the debt representing accumulated deficits must not exceed 17% of GDP.

☐ Reduction of the gross debt

As at March 31, 2018, the gross debt will stand at \$204.5 billion.² As a proportion of the economy, this is equivalent to 49.6% of GDP. The ratio of gross debt to GDP has decreased for the third consecutive year.

A gradual, sustained reduction of the debt ratio is expected. The ratio of gross debt to GDP will be 45.0% as at March 31, 2023.

The objective of reducing the ratio of the gross debt to 45% of GDP will therefore be achieved in 2022-2023.

☐ Reduction of the debt representing accumulated deficits

As at March 31, 2018, the debt representing accumulated deficits will stand at \$115.1 billion, or 27.9% of GDP.

As a proportion of GDP, the debt representing accumulated deficits began to decrease in 2013-2014 and will continue to fall over the coming years, reaching 20.8% as at March 31, 2023.

The objective of reducing the debt representing accumulated deficits to 17% of GDP will be achieved in 2025-2026, as provided for in the Act. As at March 31, 2026, the debt representing accumulated deficits will stand at 16.8% of GDP.

Once the debt reduction objectives are achieved, the government intends to take steps to ensure that the gross debt burden remains below 45% of GDP and that the debt representing accumulated deficits remains below 17% of GDP.

To accomplish this, the government will continue to responsibly manage public finances while continuing to make the planned deposits in the Generations Fund.

² Section G of *The Québec Economic Plan – March 2018* provides detailed information on the Québec government's debt.

❑ **Deposits in the Generations Fund**

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.

— In addition to these deposits, investment income accumulates in the Generations Fund, which accelerates the reduction of the debt.

■ **Water-power royalties**

Water-power royalties paid into the Generations Fund by Hydro-Québec and private producers of hydro-electricity will total \$802 million in 2017-2018, \$787 million in 2018-2019, \$805 million in 2019-2020, \$831 million in 2020-2021, \$840 million in 2021-2022 and \$869 million in 2022-2023.

■ **Heritage electricity**

Deposits in the Generations Fund relating to the indexation of the price of heritage electricity will represent \$218 million in 2017-2018, \$245 million in 2018-2019, \$300 million in 2019-2020, \$385 million in 2020-2021, \$470 million in 2021-2022 and \$565 million in 2022-2023.

■ **Additional contribution from Hydro-Québec**

An amount of \$215 million per year from Hydro-Québec will be deposited in the Generations Fund from 2017-2018 to 2043-2044.

■ **Mining revenues**

Deposits in the Generations Fund of all mining revenues collected by the government will represent \$133 million in 2017-2018, \$230 million in 2018-2019, \$272 million in 2019-2020, \$324 million in 2020-2021, \$356 million in 2021-2022 and \$388 million in 2022-2023.

■ **Specific tax on alcoholic beverages**

An amount of \$500 million per year drawn from the specific tax on alcoholic beverages has been deposited in the Generations Fund since 2016-2017.

In 2013, the government chose to offset the impact on the debt of the additional deficits stemming from the decision to postpone by two years the return to a balanced budget, which had been forecast for 2013-2014, by increasing the deposits in the Generations Fund drawn from the specific tax on alcoholic beverages as of 2016-2017.

— Accordingly, additional deposits of \$400 million were added to the \$100 million allocated to the Generations Fund in 2014-2015 and 2015-2016, bringing deposits in the fund drawn from the specific tax on alcoholic beverages to \$500 million per year as of 2016-2017.

TABLE D.3

Generations Fund
(millions of dollars)

	March 2017		March 2018					
	2017-2018	Adjustments	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023
Book value, beginning of year	10 564	-41	10 523	12 815	13 306	14 013	15 004	16 269
Dedicated revenues								
Water-power royalties								
Hydro-Québec	680	20	700	687	703	727	734	761
Private producers	99	3	102	100	102	104	106	108
Subtotal	779	23	802	787	805	831	840	869
Indexation of the price of heritage electricity	215	3	218	245	300	385	470	565
Additional contribution from Hydro-Québec	215	—	215	215	215	215	215	215
Mining revenues	123	10	133	230	272	324	356	388
Specific tax on alcoholic beverages	500	—	500	500	500	500	500	500
Unclaimed property	30	-24	6	15	15	15	15	15
Investment income ⁽¹⁾	626	-208	418	499	600	721	869	950
Total dedicated revenues	2 488	-196	2 292	2 491	2 707	2 991	3 265	3 502
Use of Generations Fund to repay maturing borrowings	—	—	—	-2 000	-2 000	-2 000	-2 000	-2 000
BOOK VALUE, END OF YEAR	13 052	-237	12 815	13 306	14 013	15 004	16 269	17 771

(1) The investment income of the Generations Fund corresponds to realized investment income (interest income, dividends, gains on the disposal of assets, etc.). Therefore, the forecast may be adjusted upward or downward according to the timing of realized gains or losses.

The Act to reduce the debt and establish the Generations Fund

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 must not exceed 45% of GDP and the debt representing accumulated deficits must not exceed 17% of GDP.

Under the provisions of the Act, the Generations Fund is constituted of the following sums 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
- since 2015-2016, the total of fees, duties, rentals and mining royalties provided for in the *Mining Tax Act* and the *Mining Act*. This amount is established once the duties allocated to the mining heritage and mining activity management components of the Natural Resources Fund have been subtracted;
- in 2014-2015 and 2015-2016, \$100 million a year, increasing to \$500 million a year as of 2016-2017, 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 Generations Fund.

The Act 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.

Similarly, that Act authorizes the government, subject to the provisions of the *Balanced Budget Act*, to use the stabilization reserve to deposit sums in the Generations Fund.

The sums constituting the Generations 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.

The Act also stipulates that the Minister of Finance may take any sum from the Generations Fund and use it to repay the debt.

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 of the gross debt, on the sums constituting the Generations Fund and on any sums 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 2017-2018, \$2.3 billion in dedicated revenues was deposited in the Generations Fund. The downward adjustment of \$196.0 million relative to the forecast in the March 2017 Québec Economic Plan is primarily due to investment income realized that was lower than forecast.

For 2018-2019, \$2.5 billion will be allocated to the Generations Fund.

For 2019-2020, the revenue of the Generations Fund will amount to \$2.7 billion.

2.3 Use of the Generations Fund to repay maturing borrowings

The accelerated growth of the Generations Fund and the sound financial framework could enable Québec to advance to a new stage by using a portion of the accumulated sums to begin effectively repaying a portion of its debt.

In this context, the March 2018 Québec Economic Plan provides for the use of \$10 billion from the Generations Fund, at a rate of \$2 billion per year from 2018-2019 to 2022-2023 to repay maturing borrowings on financial markets.

This repayment of \$10 billion over the next five years will allow for savings on debt service of nearly \$1.1 billion by 2022-2023, while continuing to make deposits of dedicated revenues in the Generations Fund.

□ Evolution of the Generations Fund

Taking into account the deposits made since its creation and those forecast for the coming years, as well as the use of the fund to repay maturing borrowings,³ the book value of the Generations Fund will reach:

— \$12.8 billion as at March 31, 2018;

— \$13.3 billion as at March 31, 2019;

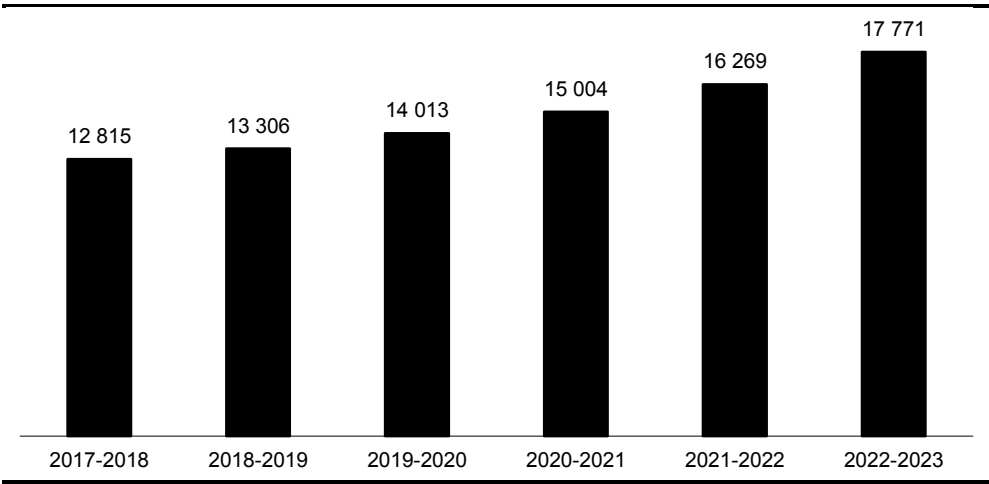
— \$14.0 billion as at March 31, 2020.

³ In 2013-2014, the government used \$1.0 billion from the Generations Fund to repay maturing borrowings.

The Generations Fund will reach \$17.8 billion as at March 31, 2023.

CHART D.2

Growth in the book value of the Generations Fund
(millions of dollars)



APPENDIX: THE REVISED ACCOUNTING STANDARD ON TRANSFER PAYMENTS

Difference of interpretation between the Ministère des Finances du Québec and the Auditor General of Québec

The government grants subsidies within the framework of capital investments made by municipalities or universities. These annual subsidies are granted in the form of reimbursements of principal and interest on long-term borrowings that municipalities or universities have contracted to finance their fixed assets.

The goal is to match government spending with the use of fixed assets, which is fair for taxpayers from an intergenerational standpoint. The government's accounting practice in this regard has always been to record each year principal and interest reimbursements to municipalities and universities in its expenditure. These annual subsidies are stipulated in each of the agreements signed with the municipalities and universities. In addition, they must be submitted each year to the National Assembly of Québec for the purpose of adopting budgetary appropriations.

A revised accounting standard on transfer payments came into effect on April 1, 2012. Since then, there has been a difference in the interpretation of this standard between the Ministère des Finances du Québec and the Auditor General of Québec.

According to the Auditor General of Québec, the government must record, based on the progress of work, an equivalent expenditure. The position of the Ministère des Finances du Québec has been confirmed by the independent opinions of internationally renowned public accounting firms consulted in this regard.

Applying the Auditor General of Québec's interpretation of the revised accounting standard regarding transfer expenditures would have a significant impact on accumulated deficits.

According to the Auditor General of Québec's estimate in his report on the Québec government's consolidated financial statements as at March 31, 2017, this interpretation would have entailed, as at March 31, 2017, the recording of an amount of \$9.6 billion in the debt representing accumulated deficits.¹

¹ For the government, these are contractual obligations presented in Note 17 to its financial statements.

Difference of interpretation between the Ministère des Finances du Québec and the Auditor General of Québec (cont.)

As at March 31, 2026, the debt representing accumulated deficits is expected to stand at 16.8% of GDP.

Applying the Auditor General of Québec's interpretation of the revised accounting standard regarding transfer expenditures would increase this ratio above 17% of GDP, to 18.6% of GDP.

Impact on the debt representing accumulated deficits as at March 31, 2026 of applying the Auditor General of Québec's interpretation of the standard regarding transfer expenditures

(millions of dollars)

	March 31, 2026
Debt representing accumulated deficits	88 519
<i>% of GDP</i>	16.8
Plus: Impact of applying the Auditor General of Québec's interpretation of the standard regarding transfer expenditures	9 595 ⁽¹⁾
Debt representing accumulated deficits after impact	98 114
<i>% of GDP</i>	18.6

(1) This is the estimate as at March 31, 2017.

Section E

MEASURES THAT REQUIRE LEGISLATIVE AMENDMENTS

1. MEASURES THAT REQUIRE LEGISLATIVE AMENDMENTS	E.3
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1. MEASURES THAT REQUIRE LEGISLATIVE AMENDMENTS

Certain measures in the budget require legislative amendments. The Minister of Finance will introduce a bill in the National Assembly for that purpose, which will contain legislative amendments, the majority of which are not of a fiscal nature. The details of certain measures are provided in the budget documents. The omnibus bill will include the following measures in particular.

❑ Enhancement of the electricity discount for major projects

To help businesses take full advantage of the more positive economic climate for investment, legislative amendments will be made to increase the maximum duration for applying the electricity discount for major projects. The maximum duration will be increased from four years to six years, and the end of the effective discount period will be extended to December 31, 2028.

❑ Simplification of the procedure for researchers to access data

Amendments will be made to the *Act respecting the Institut de la statistique du Québec* to simplify and expedite access for researchers to information from departments and bodies.

❑ Innovation in the alcoholic beverage sector

Legislative amendments will be made to support innovation in the alcoholic beverage sector.

❑ The Sports and Physical Activity Development Fund

The bill will enable an increase in the annual amount drawn from the revenues generated by the specific tax on tobacco products and deposited in the Sports and Physical Activity Development Fund.

❑ The Québec Cultural Heritage Fund

The *Act respecting the Ministère de la Culture et des Communications* will be amended to increase the annual amount drawn from the revenues generated by the specific tax on tobacco products and deposited in the Québec Cultural Heritage Fund.

❑ Extension of pilot projects regarding remunerated passenger transportation

The *Act respecting transportation services by taxi* will be amended to increase the maximum duration of pilot projects regarding remunerated passenger transportation in order to properly assess the impacts of pilot projects before deciding on further action.

❑ Implementation of sales recording modules in the street food sector

The *Tax Administration Act* and the *Act respecting the Québec sales tax* will be amended to provide for the implementation of sales recording modules (SRMs) in the street food sector to ensure healthy competition and promote tax fairness in the restaurant sector.

❑ Banning of public contracts with taxpayers who have been assessed for abusive tax avoidance

The *Act respecting contracting by public bodies* will be amended. The Autorité des marchés financiers will be able to refuse to grant or renew authorization for a public body to sign a contract with a business that has been assessed for an abusive tax avoidance transaction, or to revoke such authorization.

❑ Strengthening of tax and corporate transparency

A joint task force between Revenu Québec and the Ministère des Finances du Québec will continue to examine measures aimed at strengthening tax and corporate transparency. This work will culminate in amendments to tax legislation.

❑ The Société de la Place des Arts de Montréal and the Société de télédiffusion du Québec

Amendments will be made to the *Act respecting the Société de la Place des Arts de Montréal* and the *Act respecting the Société de télédiffusion du Québec* in order to change the fiscal year end for these organizations to March 31.

❑ Standardization of compensation granted to chairs of committees of the board of directors of the Agence du revenu du Québec

The *Act respecting the Agence du revenu du Québec* will be amended with respect to the rules regarding the compensation of independent members of the board of directors of the Agence du revenu du Québec who chair a committee.

❑ Delegation of signatures

The *Tax Administration Act* and the *Act respecting the Agence du revenu du Québec* will be amended such that authorization for employees to sign deeds, documents and writings on behalf of Revenu Québec will now be provided via an administrative act.

Obligation of suppliers outside Québec to collect QST
The Québec government plans to require suppliers that do not have a physical or significant presence in Québec to register for the QST system in order to remit QST to Revenu Québec. To this end, legislative amendments will be necessary and will be quickly tabled to the National Assembly.

Section F

QUÉBEC'S BUDGETARY STATISTICS

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INTRODUCTION

The publication of Québec's budgetary statistics is an integral part of the government's budgetary accountability. It is aimed, in particular, at monitoring the government's revenue and expenditure as a whole on a historical basis. Also, forecasts for 2017-2018 to 2019-2020 complete the picture of historical trends.

This section consists of five chapters:

- consolidated results, which provide a summary of the change in consolidated revenue and expenditure;
- results by sector, which show the change in revenue and expenditure according to the various sectoral components included in the government reporting entity;
- consolidated financial transactions, which show the government's treasury and financing transactions;
- debt of the Québec government;
- statistics adjusted for historical analysis, including Québec's gross domestic product (GDP).

The first four chapters present the budgetary information as published in the public accounts, but also take into account certain changes made to government accounting over the years.

- When the impact of an accounting change on the historical statistics as a whole can be determined, the data published herein have been updated. Such situations pertain mainly to changes made to the budgetary structure and to those related to tax-funded expenditures.
- Conversely, when the impact of an accounting change cannot be determined precisely with reasonable effort, the data have not been updated. This gives rise to a break in the continuity of the data that makes it more difficult to interpret the change in data. Therefore, owing to the breaks in data caused by the 2006-2007 accounting reform and the line-by-line consolidation of the networks in 2009-2010, judgment must be exercised in comparing the data.

The information presented in Chapter 5 does not contain any breaks. The change in revenue and expenditure is presented on a comparable basis, that is, it has been adjusted using parametric estimates for the various accounting changes.

1. CONSOLIDATED RESULTS

TABLE F.1

Summary of consolidated results
(millions of dollars)

	Own- source revenue	Federal transfers ⁽¹⁾	Consolidated revenue	Mission expenditures	Debt service	Consolidated expenditure	Contingency reserve
2019-2020	88 595	24 764	113 359	-102 066	-9 422	-111 488	-100
2018-2019	85 923	23 674	109 597	-99 313	-9 380	-108 693	—
2017-2018	84 527	22 669	107 196	-94 817	-9 237	-104 054	—
2016-2017	82 728	20 179	102 907	-89 018	-9 527	-98 545	
2015-2016	81 245	18 901	100 146	-86 493	-10 009	-96 502	
2014-2015	77 444	18 539	95 983	-85 577	-10 270	-95 847	
2013-2014	74 727	18 550	93 277	-84 382	-10 598	-94 980	
2012-2013	70 526 ⁽⁵⁾	17 517	88 043	-80 719	-9 839	-90 558	
2011-2012	69 517	16 938	86 455	-78 792	-9 451	-88 243	
2010-2011	65 414	17 493	82 907	-76 362	-8 935	-85 297	
2009-2010	61 539	17 110	78 649	-73 745	-7 844	-81 589	
Without line-by-line consolidation of the networks⁽⁷⁾							
2008-2009	58 189	15 081	73 270	-66 397	-8 131	-74 528	
2007-2008	58 434	14 733	73 167	-62 765	-8 752	-71 517	
2006-2007	57 679	11 970	69 649	-58 933	-8 723	-67 656	
Before government accounting reform in 2006-2007⁽⁷⁾							
2005-2006	52 680	11 122	63 802	-56 206	-7 559	-63 765	
2004-2005	50 302	9 939	60 241	-53 456	-7 449	-60 905	
2003-2004	47 463 ⁽⁵⁾	10 120	57 583	-50 700	-7 241	-57 941	
2002-2003	45 701 ⁽⁵⁾	9 457	55 158	-48 754	-7 132	-55 886	
2001-2002	43 116 ⁽⁵⁾	9 476	52 592	-46 259	-7 261	-53 520	
2000-2001	44 779	8 319	53 098	-44 115	-7 606	-51 721	
1999-2000	42 823	6 530	49 353	-41 973	-7 373	-49 346	
1998-1999	40 345	8 292	48 637	-41 324	-7 187	-48 511	

Surplus (deficit) in the public accounts	Revenues dedicated to the Generations Fund	Accounting changes and other ⁽²⁾	Budgetary balance within the meaning of the Act	Stabilization reserve		Budgetary balance within the meaning of the Act after reserve ^{(3),(4)}
				Allocations	Uses	
1 771	-2 707		-936		936	—
904	-2 491		-1 587		1 587	—
3 142	-2 292		850	-850		—
4 362	-2 001		2 361	-2 361		—
3 644	-1 453		2 191	-2 191		—
136	-1 279	418	-725			-725
-1 703	-1 121		-2 824			-2 824
-2 515	-961	1 876 ⁽⁶⁾	-1 600			-1 600
-1 788	-840		-2 628			-2 628
-2 390	-760		-3 150			-3 150
-2 940	-725	58	-3 607		433	-3 174
-1 258	-587		-1 845	-109 ⁽⁸⁾	1 845 ⁽⁹⁾	—
1 650	-449		1 201	-1 201	— ⁽⁹⁾	—
1 993	-584		1 409	-1 300		109
37			37			37
-664			-664			-664
-358			-358			-358
-728			-728			-728
-928			-928		950	22
1 377			1 377	-950		427
7			7			7
126			126			126

TABLE F.2

Own-source revenue
(millions of dollars)

	Personal income tax	Contributions for health services	Corporate taxes	School property tax⁽¹⁰⁾
2019-2020	31 974	6 168	8 060	1 706
2018-2019	30 549	6 028	8 028	1 817
2017-2018	29 115	6 049	7 900	2 242
2016-2017	29 231	5 969	7 480	2 169
2015-2016	28 753	6 614	7 016	2 090
2014-2015	27 547	6 397	5 837	1 954
2013-2014	26 203	6 251	5 625	1 786
2012-2013	25 070	6 391	6 100	1 577
2011-2012	24 524	5 776	6 022	1 526
2010-2011	23 067	5 196	5 835	1 492
2009-2010	21 567	4 788	5 554	1 469
Without line-by-line consolidation of the networks⁽⁷⁾				
2008-2009	21 841	5 473	5 866	
2007-2008	22 409	5 251	6 314	
2006-2007	22 128	4 903	6 225	
Before government accounting reform in 2006-2007⁽⁷⁾				
2005-2006	19 742	4 902	6 048	
2004-2005	19 251	4 734	5 431	
2003-2004	18 213	4 513	5 189	
2002-2003	18 098	3 936	4 883	
2001-2002	18 090	4 163	4 829	
2000-2001	18 842	4 343	5 005	
1999-2000	17 886	4 183	4 306	
1998-1999	17 097	4 007	4 009	

Consumption taxes	Duties and permits	Miscellaneous revenue	Revenue from government enterprises	Total
21 418	3 979	10 820	4 470	88 595
20 921	3 797	10 451	4 332	85 923
20 299	3 947	10 240	4 735	84 527
19 292	3 297	10 391	4 899	82 728
18 540	3 828	9 391	5 013	81 245
17 703	3 282	9 317	5 407	77 444
17 181	2 961	9 290	5 430	74 727
16 125	2 801	9 230	3 232 ⁽⁵⁾	70 526
15 593	2 823	8 504	4 749	69 517
13 952	2 696	8 338	4 838	65 414
12 678	2 411	8 194	4 878	61 539
12 827	2 234	4 935	5 013	58 189
12 391	1 957	5 087	5 025	58 434
12 123	1 584	4 499	6 217	57 679
11 914	1 492	4 028	4 554	52 680
11 741	1 470	3 329	4 346	50 302
11 158	1 225	3 350	3 815 ⁽⁵⁾	47 463
10 483	1 271	3 268	3 762 ⁽⁵⁾	45 701
9 129	1 216	2 958	2 731 ⁽⁵⁾	43 116
9 014	1 272	2 807	3 496	44 779
8 365	1 374	2 782	3 927	42 823
8 159	1 252	2 690	3 131	40 345

TABLE F.3

Consumption taxes
(millions of dollars)

	Sales taxes	Fuel	Tobacco products	Alcoholic beverages	Total
2019-2020	17 459	2 353	961	645	21 418
2018-2019	16 967	2 321	993	640	20 921
2017-2018	16 367	2 276	1 023	633	20 299
2016-2017	15 288	2 336	1 045	623	19 292
2015-2016	14 517	2 306	1 083	634	18 540
2014-2015	13 821	2 215	1 069	598	17 703
2013-2014	13 310	2 310	1 010	551	17 181
2012-2013	12 588	2 150	907	480	16 125
2011-2012	12 176	2 064	913	440	15 593
2010-2011	10 723	1 910	873	446	13 952
2009-2010	9 793	1 698	754	433	12 678
Without line-by-line consolidation of the networks⁽⁷⁾					
2008-2009	10 051	1 692	654	430	12 827
2007-2008	9 556	1 707	707	421	12 391
2006-2007	9 215	1 728	758	422	12 123
Before government accounting reform in 2006-2007⁽⁷⁾					
2005-2006	8 974	1 708	818	414	11 914
2004-2005	8 612	1 761	965	403	11 741
2003-2004	8 041	1 736	973	408	11 158
2002-2003	7 455	1 691	935	402	10 483
2001-2002	6 416	1 579	741	393	9 129
2000-2001	6 503	1 581	554	376	9 014
1999-2000	5 832	1 605	555	373	8 365
1998-1999	5 678	1 604	523	354	8 159

TABLE F.4

Revenue from government enterprises
 (millions of dollars)

	Hydro-Québec	Loto-Québec	Société des alcools du Québec	Other ⁽¹¹⁾	Total
2019-2020	2 275	1 231	1 146	-182	4 470
2018-2019	2 075	1 236	1 112	-91	4 332
2017-2018	2 275	1 274	1 099	87	4 735
2016-2017	2 412	1 206	1 086	195	4 899
2015-2016	2 680	1 202	1 067	64	5 013
2014-2015	3 245	1 026	1 034	102	5 407
2013-2014	3 333	1 055	1 003	39	5 430
2012-2013	919 ⁽⁵⁾	1 194	1 030	89	3 232
2011-2012	2 545	1 196	1 000	8	4 749
2010-2011	2 478	1 247	915	198	4 838
2009-2010	2 978	1 252	867	-219	4 878
2008-2009	3 095	1 375	808	-265	5 013
2007-2008	2 926	1 360	761	-22	5 025
2006-2007	4 043 ⁽¹²⁾	1 391	710	73	6 217
Before government accounting reform in 2006-2007					
2005-2006	2 323	1 537	657	37	4 554
2004-2005	2 405	1 511	546	-116	4 346
2003-2004	2 049	1 393	571	-198 ⁽⁵⁾	3 815
2002-2003	1 840	1 353	540	29 ⁽⁵⁾	3 762
2001-2002	1 041	1 352	489	-151 ⁽⁵⁾	2 731
2000-2001	1 160	1 358	471	507	3 496
1999-2000	1 090	1 289	442	1 106	3 927
1998-1999	754	1 167	408	802	3 131

TABLE F.5

Federal transfers⁽¹⁾
(millions of dollars)

	Equalization	Health transfers	Transfers for post-secondary education and other social programs	Canada Health and Social Transfer ⁽¹³⁾	Other programs	Total
2019-2020	13 150	6 757	1 690		3 167	24 764
2018-2019	11 732	6 431	1 659		3 852	23 674
2017-2018	11 081	6 211	1 701		3 676	22 669
2016-2017	10 030	5 946	1 635		2 568	20 179
2015-2016	9 521	5 487	1 542		2 351	18 901
2014-2015	9 286	5 282	1 588		2 383	18 539
2013-2014	7 833	5 290	1 534		3 893 ⁽¹⁴⁾	18 550
2012-2013	7 391	4 792	1 486		3 848 ⁽¹⁴⁾	17 517
2011-2012	7 815	4 511	1 488		3 124 ⁽¹⁴⁾	16 938
2010-2011	8 552	4 309	1 455		3 177	17 493
2009-2010	8 355	4 148	1 461		3 146	17 110
Without line-by-line consolidation of the networks⁽⁷⁾						
2008-2009	8 028	3 740	1 267		2 046	15 081
2007-2008	7 160	3 925	1 516		2 132	14 733
2006-2007	5 539	3 649	1 070		1 712	11 970
Before government accounting reform in 2006-2007⁽⁷⁾						
2005-2006	4 798	3 185	1 034		2 105	11 122
2004-2005	5 221	2 422	926		1 370	9 939
2003-2004	4 065			4 266	1 789	10 120
2002-2003	5 315			2 648	1 494	9 457
2001-2002	5 336			2 958	1 182	9 476
2000-2001	5 650			1 597	1 072	8 319
1999-2000	4 387			1 120	1 023	6 530
1998-1999	5 385			1 697	1 210	8 292

TABLE F.6

Mission expenditures⁽¹⁵⁾
(millions of dollars)

	Health and Social Services	Education and Culture	Economy and Environment	Support for Individuals and Families	Administration and Justice	Total
2019-2020	-43 768	-24 645	-14 338	-10 489	-8 826	-102 066
2018-2019	-42 062	-23 781	-14 374	-10 372	-8 724	-99 313
2017-2018	-40 240	-22 572	-13 833	-10 113	-8 059	-94 817
2016-2017	-38 737	-21 646	-12 338	-9 585	-6 712	-89 018
2015-2016	-37 527	-20 997	-11 720	-9 594	-6 655	-86 493
2014-2015	-36 819	-20 870	-11 557	-9 676	-6 655	-85 577
2013-2014	-35 624	-20 583	-11 964	-9 572	-6 639	-84 382
2012-2013	-34 193	-19 499	-11 418	-9 355	-6 254	-80 719
2011-2012	-32 491	-19 313	-11 591	-9 171	-6 226	-78 792
2010-2011	-31 192	-18 613	-11 387	-8 925	-6 245	-76 362
2009-2010	-30 019	-17 919	-10 636	-8 622	-6 549	-73 745
Without line-by-line consolidation of the networks⁽⁷⁾						
2008-2009	-27 044	-14 852	-10 092	-8 296	-6 113	-66 397
2007-2008	-25 316	-14 282	-9 512	-8 154	-5 501	-62 765
2006-2007	-23 674	-13 264	-8 666	-7 947	-5 382	-58 933
Before government accounting reform in 2006-2007⁽⁷⁾						
2005-2006	-22 496	-13 331	-7 897	-7 558	-4 924	-56 206
2004-2005	-21 567	-12 821	-7 311	-6 907	-4 850	-53 456
2003-2004	-19 968	-12 500	-7 307	-6 552	-4 373	-50 700
2002-2003	-18 696	-12 041	-7 263	-6 428	-4 326	-48 754
2001-2002	-17 838	-11 476	-6 792	-6 272	-3 881	-46 259
2000-2001	-16 722	-11 106	-6 844	-5 954	-3 489	-44 115
1999-2000	-15 371	-10 724	-6 690	-5 985	-3 203	-41 973
1998-1999	-15 082	-10 366	-6 270	-6 219	-3 387	-41 324

TABLE F.7

Debt service
(millions of dollars)

	Direct debt service	Interest on the retirement plans and employee future benefits liability ⁽¹⁶⁾	Total	% of consolidated revenue
2019-2020	-8 381	-1 041	-9 422	8.3
2018-2019	-7 991	-1 389	-9 380	8.6
2017-2018	-7 424	-1 813	-9 237	8.6
2016-2017	-7 218	-2 309	-9 527	9.3
2015-2016	-7 278	-2 731	-10 009	10.0
2014-2015	-7 101	-3 169	-10 270	10.7
2013-2014	-7 219	-3 379	-10 598	11.4
2012-2013	-6 755	-3 084	-9 839	11.2
2011-2012	-6 635	-2 816	-9 451	10.9
2010-2011	-6 283	-2 652	-8 935	10.8
2009-2010	-5 537	-2 307	-7 844	10.0
Without line-by-line consolidation of the networks⁽⁷⁾				
2008-2009	-5 988	-2 143	-8 131	11.1
2007-2008	-6 266	-2 486	-8 752	12.0
2006-2007	-6 030	-2 693	-8 723	12.5
Before government accounting reform in 2006-2007⁽⁷⁾				
2005-2006	-4 728	-2 831	-7 559	11.8
2004-2005	-4 662	-2 787	-7 449	12.4
2003-2004	-4 499	-2 742	-7 241	12.6
2002-2003	-4 484	-2 648	-7 132	12.9
2001-2002	-4 544	-2 717	-7 261	13.8
2000-2001	-5 012	-2 594	-7 606	14.3
1999-2000	-4 741	-2 632	-7 373	14.9
1998-1999	-4 773	-2 414	-7 187	14.8

Notes to the tables in Chapter 1

- (1) Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.
- (2) The *Balanced Budget Act* stipulates that the budgetary balance must:
 - a) exclude the retroactive effect of a new CPA Canada standard for the years preceding the changeover year proposed by CPA Canada;
 - b) take into consideration the effects of accounting changes, for a date subsequent to March 31, 2006, posted directly to accumulated deficits. This rule does not apply to accounting changes resulting from the implementation of the 2006-2007 accounting reform.
- (3) For years prior to 2009-2010, the consolidated budgetary balance does not take into account the changes made to the mechanics of the reserve 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). As of 2009-2010, the data take the impact of the Act into account.
- (4) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve takes into account the allocations to and uses of the stabilization reserve to keep the budget balanced.
- (5) Own-source revenue includes Hydro-Québec's extraordinary loss of \$1 876 million stemming from the closure of the Gentilly-2 nuclear power plant in 2012-2013 and the extraordinary losses of the Société générale de financement du Québec of \$358 million in 2003-2004, \$339 million in 2002-2003 and \$91 million in 2001-2002.
- (6) The *Balanced Budget Act* stipulates that the budgetary balance for fiscal year 2012-2013 must be determined by excluding the result, shown in Hydro-Québec's annual consolidated financial statements, from activities abandoned following the decision to close the Gentilly-2 nuclear power plant.
- (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) In accordance with section 32 of the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (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.
- (9) In addition to the use of \$1 845 million in 2008-2009 to maintain a balanced budget, deposits of \$132 million in 2008-2009 and \$200 million in 2007-2008 were made in the Generations Fund using the stabilization reserve.
- (10) As the school property tax is part of the education networks' revenue, it has been included in the government's consolidated financial statements only since the line-by-line consolidation of networks in 2009-2010.
- (11) Includes revenue from other government enterprises, in particular Investissement Québec, and, as of 2017-2018, the impact of the Electricity Discount Program for Consumers Billed at Rate L.
- (12) Revenue from Hydro-Québec in 2006-2007 includes major gains on the disposal of investments it held in foreign businesses.
- (13) For 2003-2004 and previous years, the Canada Health and Social Transfer was the main federal contribution to the funding of provincial health, post-secondary education, social assistance and social services programs. No breakdown of funding was provided for between the various spending sectors that the transfer helped to finance. Therefore, this transfer cannot be presented according to the basis used for subsequent years.

- (14) Revenue from other programs includes compensation for harmonization of the QST with the GST, totalling \$1 467 million in 2013-2014 and \$733 million in 2012-2013, as well as protection payments of \$362 million in 2012-2013 and \$369 million in 2011-2012.
- (15) Data are based on the best data available. However, certain data are reasonable estimates, in particular those for the earliest years.
- (16) This interest corresponds to interest on the obligations relating to the retirement plans and other employee future benefits of public and parapublic sector employees less the investment income of the Retirement Plans Sinking Fund and funds dedicated to other employee future benefits.

2. RESULTS BY SECTOR

TABLE F.8

Summary of results by sector
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Revenue				
General Fund	62 972	66 196	66 765	71 230
Special funds	9 291	10 124	10 206	10 927
Generations Fund	760	840	961	1 121
Specified purpose accounts	1 616	1 477	1 098	1 011
Non-budget-funded bodies	17 034	17 921	18 552	19 298
Bodies in the health and social services network	20 860	22 107	23 392	23 624
Bodies in the education networks	14 156	14 204	14 763	15 195
Tax-funded transfers ⁽¹⁾	6 096	6 013	6 014	6 317
Consolidation adjustments ⁽²⁾	-49 878	-52 427	-53 708	-55 446
Consolidated revenue	82 907	86 455	88 043	93 277
Expenditure				
General Fund	-60 292	-62 180	-63 313	-65 905
Special funds	-7 610	-8 487	-8 505	-9 288
Specified purpose accounts	-1 616	-1 477	-1 098	-1 011
Non-budget-funded bodies	-15 662	-16 587	-17 226	-18 156
Bodies in the health and social services network	-20 574	-21 858	-22 992	-23 264
Bodies in the education networks	-13 484	-13 897	-14 266	-14 782
Tax-funded expenditures ⁽¹⁾	-6 096	-6 013	-6 014	-6 317
Consolidated adjustments ⁽²⁾	48 972	51 707	52 695	54 341
Mission expenditures	-76 362	-78 792	-80 719	-84 382
Debt service				
General Fund	-7 084	-7 348	-7 766	-8 434
Consolidated entities ⁽³⁾	-1 851	-2 103	-2 073	-2 164
Consolidated debt service	-8 935	-9 451	-9 839	-10 598
Consolidated expenditure	-85 297	-88 243	-90 558	-94 980
Contingency reserve				
SURPLUS (DEFICIT)	-2 390	-1 788	-2 515	-1 703

2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
73 152	76 076	78 148	80 605	82 807	86 694
11 483	11 875	11 651	12 780	13 440	13 945
1 279	1 453	2 001	2 292	2 491	2 707
1 000	984	986	1 569	1 548	939
19 254	20 207	21 115	21 268	21 180	21 850
24 338	24 203	24 893	25 654	27 043	28 086
15 551	15 709	16 217	16 909	17 662	18 542
6 641	6 848	6 522	6 711	6 970	7 081
-56 715	-57 209	-58 626	-60 592	-63 544	-66 485
95 983	100 146	102 907	107 196	109 597	113 359
-66 950	-67 186	-69 376	-72 591	-76 869	-79 682
-9 546	-9 635	-10 093	-11 580	-12 066	-12 487
-1 000	-984	-986	-1 569	-1 548	-939
-17 981	-18 905	-19 924	-20 210	-20 494	-21 164
-23 983	-23 899	-24 455	-25 209	-26 545	-27 499
-15 151	-15 147	-15 602	-16 432	-17 248	-18 057
-6 641	-6 848	-6 522	-6 711	-6 970	-7 081
55 675	56 111	57 940	59 485	62 427	64 843
-85 577	-86 493	-89 018	-94 817	-99 313	-102 066
-8 150	-7 955	-7 543	-7 220	-7 160	-7 023
-2 120	-2 054	-1 984	-2 017	-2 220	-2 399
-10 270	-10 009	-9 527	-9 237	-9 380	-9 422
-95 847	-96 502	-98 545	-104 054	-108 693	-111 488
			—	—	-100
136	3 644	4 362	3 142	904	1 771

TABLE F.9

General Fund
(millions of dollars)

	Own-source revenue ^{(4),(5)}	Federal transfers ⁽⁶⁾	Total revenue	Program spending	Debt service	Total expenditure
2019-2020	63 878	22 816	86 694	-79 682	-7 023	-86 705
2018-2019	61 763	21 044	82 807	-76 869	-7 160	-84 029
2017-2018	60 356	20 249	80 605	-72 591	-7 220	-79 811
2016-2017	59 566	18 582	78 148	-69 376	-7 543	-76 919
2015-2016	58 663	17 413	76 076	-67 186	-7 955	-75 141
2014-2015	55 892	17 260	73 152	-66 950	-8 150	-75 100
2013-2014	54 272	16 958	71 230	-65 905	-8 434	-74 339
2012-2013	51 058 ⁽⁷⁾	15 707	66 765	-63 313	-7 766	-71 079
2011-2012	50 953	15 243	66 196	-62 180	-7 348	-69 528
2010-2011	47 547	15 425	62 972	-60 292	-7 084	-67 376
2009-2010	44 199	15 161	59 360	-58 279	-6 240	-64 519
2008-2009	45 222	14 023	59 245	-55 258	-6 639	-61 897
2007-2008	45 951	13 629	59 580	-51 833	-7 160	-58 993
2006-2007	46 256	11 015	57 271	-49 081	-7 185	-56 266
Before government accounting reform in 2006-2007						
2005-2006	42 460	9 969	52 429	-46 839	-7 042	-53 881
2004-2005	41 164	9 229	50 393	-45 537	-7 035	-52 572
2003-2004	38 917 ⁽⁷⁾	9 370	48 287	-43 419	-6 850	-50 269
2002-2003	37 403 ⁽⁷⁾	8 932	46 335	-41 927	-6 804	-48 731
2001-2002	35 717 ⁽⁷⁾	8 885	44 602	-40 147	-6 930	-47 077
2000-2001	37 486	7 895	45 381	-38 356	-7 248	-45 604
1999-2000	35 413	6 064	41 477	-35 998	-7 035	-43 033
1998-1999	32 946	7 813	40 759	-35 392	-6 853	-42 245

TABLE F.10

Special funds
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Mission expenditures	Debt service	Total expenditure	Surplus (deficit)
2019-2020	8 325	5 064	556	13 945	-12 487	-1 857	-14 344	-399
2018-2019	7 971	4 901	568	13 440	-12 066	-1 714	-13 780	-340
2017-2018	7 866	4 682	232	12 780	-11 580	-1 522	-13 102	-322
2016-2017	7 019	4 518	114	11 651	-10 093	-1 529	-11 622	29
2015-2016	7 285	4 523	67	11 875	-9 635	-1 378	-11 013	862
2014-2015	6 806	4 588	89	11 483	-9 546	-1 375	-10 921	562
2013-2014	6 299	4 513	115	10 927	-9 288	-1 204	-10 492	435
2012-2013	5 709	4 337	160	10 206	-8 505	-1 047	-9 552	654
2011-2012	5 439	4 599	86	10 124	-8 487	-973	-9 460	664
2010-2011	4 839	4 070	382	9 291	-7 610	-817	-8 427	864
2009-2010	4 572	3 812	465	8 849	-7 168	-654	-7 822	1 027

TABLE F.11

Generations Fund⁽⁸⁾
(millions of dollars)

	Dedicated revenues										Deposits in the Generations Fund
	Water-power royalties		Indexation of the price of heritage electricity	Other contributions from Hydro-Québec	Mining revenues	Specific tax on alcoholic beverages	Unclaimed property	Investment income	Total	Other deposits	
	Hydro- Québec	Private producers									
2019-2020	703	102	300	215	272	500	15	600	2 707		2 707
2018-2019	687	100	245	215	230	500	15	499	2 491		2 491
2017-2018	700	102	218	215	133	500	6	418	2 292		2 292
2016-2017	678	104	164		80	500	53	422	2 001		2 001
2015-2016	641	100	98		161	100	55	298	1 453	131 ⁽⁹⁾	1 584
2014-2015	660	101	71		—	100	32	315	1 279		1 279
2013-2014	670	93					19	339	1 121	300 ⁽¹⁰⁾	1 421
2012-2013	625	92					12	232	961		961
2011-2012	591	91					9	149	840		840
2010-2011	560	90					16	94	760		760
2009-2010	569	89					7	60	725		725
2008-2009	548	88					1	−50	587	132 ⁽¹¹⁾	719
2007-2008	367	46					—	36	449	200 ⁽¹²⁾	649
2006-2007	65	11		500 ⁽¹³⁾			5	3	584		584

TABLE F.12

Specified purpose accounts
(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Mission expenditures	Debt service	Total expenditure	Surplus (deficit)
2019-2020	171	768	939	-939		-939	—
2018-2019	188	1 360	1 548	-1 548		-1 548	—
2017-2018	166	1 403	1 569	-1 569		-1 569	—
2016-2017	212	774	986	-986		-986	—
2015-2016	236	748	984	-984		-984	—
2014-2015	212	788	1 000	-1 000		-1 000	—
2013-2014	198	813	1 011	-1 011		-1 011	—
2012-2013	225	873	1 098	-1 098		-1 098	—
2011-2012	252	1 225	1 477	-1 477		-1 477	—
2010-2011	135	1 481	1 616	-1 616		-1 616	—
2009-2010	295	857	1 152	-1 152		-1 152	—
2008-2009	257	709	966	-966		-966	—
2007-2008	267	716	983	-983		-983	—
2006-2007	237	572	809	-809		-809	—
Before government accounting reform in 2006-2007							
2005-2006	229	836	1 065	-1 065		-1 065	—
2004-2005	211	387	598	-598		-598	—
2003-2004	219	451	670	-670		-670	—
2002-2003	242	263	505	-505		-505	—
2001-2002	193	329	522	-522		-522	—
2000-2001	158	185	343	-343		-343	—
1999-2000	138	141	279	-279		-279	—
1998-1999	121	181	302	-302		-302	—

TABLE F.13

Non-budget-funded bodies
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Mission expenditures	Debt service	Total expenditure	Surplus (deficit)
2019-2020	6 441	14 466	943	21 850	-21 164	-609	-21 773	77
2018-2019	6 333	13 729	1 118	21 180	-20 494	-579	-21 073	107
2017-2018	6 464	13 521	1 283	21 268	-20 210	-595	-20 805	463
2016-2017	6 429	13 741	945	21 115	-19 924	-697	-20 621	494
2015-2016	6 218	13 037	952	20 207	-18 905	-818	-19 723	484
2014-2015	6 207	12 418	629	19 254	-17 981	-898	-18 879	375
2013-2014	6 348	11 965	985	19 298	-18 156	-1 071	-19 227	71
2012-2013	6 149	11 316	1 087	18 552	-17 226	-1 137	-18 363	189
2011-2012	6 047	10 963	911	17 921	-16 587	-1 216	-17 803	118
2010-2011	5 837	10 593	604	17 034	-15 662	-1 192	-16 854	180
2009-2010	5 612	10 639	1 000	17 251	-15 898	-1 083	-16 981	270

TABLE F.14

Bodies in the health and social services network
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Mission expenditures	Debt service	Total expenditure	Surplus (deficit)
2019-2020	2 582	25 353	151	28 086	-27 499	-587	-28 086	—
2018-2019	2 511	24 381	151	27 043	-26 545	-498	-27 043	—
2017-2018	2 442	23 061	151	25 654	-25 209	-445	-25 654	—
2016-2017	2 463	22 254	176	24 893	-24 455	-418	-24 873	20
2015-2016	2 358	21 714	131	24 203	-23 899	-407	-24 306	-103
2014-2015	2 442	21 751	145	24 338	-23 983	-359	-24 342	-4
2013-2014	2 331	21 180	113	23 624	-23 264	-342	-23 606	18
2012-2013	2 596	20 675	121	23 392	-22 992	-344	-23 336	56
2011-2012	2 511	19 495	101	22 107	-21 858	-340	-22 198	-91
2010-2011	2 308	18 381	171	20 860	-20 574	-329	-20 903	-43
2009-2010	2 398	17 831	115	20 344	-20 117	-284	-20 401	-57

TABLE F.15

Bodies in the education networks
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Mission expenditures	Debt service	Total expenditure	Surplus (deficit)
2019-2020	3 567	14 820	155	18 542	-18 057	-493	-18 550	-8
2018-2019	3 625	13 882	155	17 662	-17 248	-440	-17 688	-26
2017-2018	4 017	12 737	155	16 909	-16 432	-377	-16 809	100
2016-2017	3 940	12 095	182	16 217	-15 602	-346	-15 948	269
2015-2016	3 758	11 764	187	15 709	-15 147	-399	-15 546	163
2014-2015	3 594	11 757	200	15 551	-15 151	-458	-15 609	-58
2013-2014	3 373	11 652	170	15 195	-14 782	-492	-15 274	-79
2012-2013	3 106	11 472	185	14 763	-14 266	-506	-14 772	-9
2011-2012	3 016	11 059	129	14 204	-13 897	-511	-14 408	-204
2010-2011	2 926	11 091	139	14 156	-13 484	-469	-13 953	203
2009-2010	3 015	10 630	114	13 759	-13 150	-393	-13 543	216

TABLE F.16

Tax-funded expenditures and consolidation adjustments
(millions of dollars)

	Tax-funded expenditures ⁽¹⁾		Consolidated adjustments ⁽²⁾					
	Own-source revenue	Mission expenditures	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Mission expenditures	Debt service
2019-2020	7 081	-7 081	-6 157	-59 703	-625	-66 485	64 843	1 147
2018-2019	6 970	-6 970	-5 929	-56 893	-722	-63 544	62 427	1 011
2017-2018	6 711	-6 711	-5 787	-54 001	-804	-60 592	59 485	922
2016-2017	6 522	-6 522	-5 424	-52 608	-594	-58 626	57 940	1 006
2015-2016	6 848	-6 848	-5 574	-51 038	-597	-57 209	56 111	948
2014-2015	6 641	-6 641	-5 629	-50 514	-572	-56 715	55 675	970
2013-2014	6 317	-6 317	-5 532	-49 310	-604	-55 446	54 341	945
2012-2013	6 014	-6 014	-5 292	-47 800	-616	-53 708	52 695	961
2011-2012	6 013	-6 013	-5 554	-46 116	-757	-52 427	51 707	937
2010-2011	6 096	-6 096	-5 034	-44 135	-709	-49 878	48 972	956
2009-2010	5 878	-5 878	-5 155	-42 912	-602	-48 669	47 897	810
Without line-by-line consolidation of the networks								
2008-2009	5 484	-5 484						
2007-2008	5 050	-5 050						
2006-2007	4 796	-4 796						
Before government accounting reform in 2006-2007								
2005-2006	4 226	-4 226						
2004-2005	3 705	-3 705						
2003-2004	3 183	-3 183						
2002-2003	3 146	-3 146						
2001-2002	2 678	-2 678						
2000-2001	2 718	-2 718						
1999-2000	2 849	-2 849						
1998-1999	3 017	-3 017						

Notes to the tables in Chapter 2

- (1) Includes doubtful tax accounts.
- (2) The consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.
- (3) The debt service of consolidated entities includes consolidation adjustments.
- (4) Own-source revenue includes that of government enterprises.
- (5) Doubtful tax accounts are applied against revenue.
- (6) Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.
- (7) Own-source revenue includes Hydro-Québec's extraordinary loss of \$1 876 million stemming from the closure of the Gentilly-2 nuclear power plant in 2012-2013 and the extraordinary losses of the Société générale de financement du Québec of \$358 million in 2003-2004, \$339 million in 2002-2003 and \$91 million in 2001-2002.
- (8) 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).
- (9) The deposit of \$131 million in 2015-2016 was from the accumulated surplus of the Commission des normes du travail.
- (10) The deposit of \$300 million in 2013-2014 was from the Territorial Information Fund.
- (11) The deposit of \$132 million in 2008-2009 was taken from the stabilization reserve and derived from the sale of assets by the Société immobilière du Québec.
- (12) The deposit of \$200 million in 2007-2008 was taken from the sums allocated to the budgetary reserve in 2006-2007.
- (13) The revenue of \$500 million in 2006-2007 was taken from the sale of Hydro-Québec's investment in Transelec Chile.

3. CONSOLIDATED FINANCIAL TRANSACTIONS

TABLE F.17

Net financial requirements^{(1),(2)}
(millions of dollars)

	Surplus (deficit) in the public accounts	Non-budgetary transactions	
		Investments, loans and advances	Capital expenditures ⁽³⁾
2019-2020	1 771	-2 099	-2 877
2018-2019	904	-2 294	-3 093
2017-2018	3 142	-2 036	-2 388
2016-2017	4 362	-2 527	-1 664
2015-2016	3 644	-971	-2 176
2014-2015	136	-2 146	-2 312
2013-2014	-1 703	-1 349	-3 033
2012-2013	-2 515	-775	-3 312
2011-2012	-1 788	-1 861	-3 623
2010-2011	-2 390	-3 173	-4 018
2009-2010 ⁽⁵⁾	-2 940	-2 009	-3 939
Without line-by-line consolidation of the networks			
2008-2009	-1 258	-966	-2 150
2007-2008	1 650	-2 658	-1 378
2006-2007	1 993	-2 213	-1 177
Before government accounting reform in 2006-2007			
2005-2006	37	-1 182	-1 166
2004-2005	-664	-979	-1 083
2003-2004	-358	-1 125	-1 019
2002-2003	-728	-1 651	-1 482
2001-2002	-928	-1 142	-995
2000-2001	1 377	-1 632	-473
1999-2000	7	-2 006	-359
1998-1999	126	-1 402	-217

Non-budgetary transactions (cont.)				
Net investments in the networks ⁽⁴⁾	Retirement plans	Other accounts	Total	Net financial surplus (requirements)
	2 991	1 387	-598	1 173
	2 879	-480	-2 988	-2 084
	3 010	537	-877	2 265
	3 102	2 475	1 386	5 748
	3 505	206	564	4 208
	3 662	-292	-1 088	-952
	3 352	2 324	1 294	-409
	2 898	-414	-1 603	-4 118
	2 918	-1 160	-3 726	-5 514
	3 526	1 901	-1 764	-4 154
	2 612	1 845	-1 491	-4 431
-622	2 274	2 490	1 026	-232
-487	2 458	-213	-2 278	-628
-1 002	2 559	-2 920	-4 753	-2 760
	2 310	-208	-246	-209
	2 134	174	246	-418
	2 219	-1 183	-1 108	-1 466
	2 007	217	-909	-1 637
	2 089	361	313	-615
	1 793	-1 581	-1 893	-516
	1 740	1 328	703	710
	1 020	996	397	523

Supplementary information on financial transactions

Non-budgetary transactions^{(1),(2)}

(millions of dollars)

	2013- 2014	2014- 2015	2015- 2016	2016- 2017
Investments, loans and advances				
General Fund				
Government enterprises				
Share capital and investments				
Investissement Québec	—	—	—	-100
Société ferroviaire et portuaire de Pointe-Noire s.e.c.	—	—	—	-101
Change in the equity value of investments	-1 165	-812	-384	-461
Loans and advances				
Investissement Québec	-66	-47	-6	98
Loto-Québec	-100	50	75	50
Other	1	1	3	1
Subtotal – Government enterprises	-1 330	-808	-312	-513
Individuals, corporations and others	1 024	-575	-551	-1 456
Subtotal – General Fund	-306	-1 383	-863	-1 969
Consolidated entities	-1 043	-763	-108	-558
Total – Investments, loans and advances	-1 349	-2 146	-971	-2 527
Capital expenditures⁽³⁾				
General Fund				
Net investments	-162	-136	-124	-158
Depreciation	145	136	132	143
Consolidated entities	-3 016	-2 312	-2 184	-1 649
Total – Capital expenditures	-3 033	-2 312	-2 176	-1 664
Retirement plans and other employee future benefits				
General Fund				
Cost of vested benefits, ⁽⁶⁾ changes to plans and amortization of actuarial gains (losses)	3 014	3 196	3 224	3 140
Interest on obligations relating to accrued benefits	5 382	5 630	5 783	5 818
Benefits paid and plan-to-plan transfers	-5 279	-5 477	-5 723	-5 961
Consolidated entities	235	313	221	105
Total – Retirement plans and other employee future benefits	3 352	3 662	3 505	3 102
Other accounts	2 324	-292	206	2 475
TOTAL NON-BUDGETARY TRANSACTIONS	1 294	-1 088	564	1 386

Supplementary information on financial transactions (cont.)

Financing transactions^{(1),(2)}

(millions of dollars)

	2013- 2014	2014- 2015	2015- 2016	2016- 2017
Change in cash position				
General Fund	-2 320	-3 839	1 131	580
Consolidated entities	-17	-561	504	-2 609
Total – Change in cash position	-2 337	-4 400	1 635	-2 029
Net borrowings				
General Fund				
New borrowings	12 530	20 348	16 437	17 976
Repayment of borrowings	-8 446 ⁽⁷⁾	-11 051	-16 224	-18 184
Subtotal – General Fund	4 084	9 297	213	-208
Consolidated entities				
New borrowings	8 735	7 603	6 109	9 212
Repayment of borrowings	-6 480	-6 107	-5 649	-5 522
Subtotal – Consolidated entities	2 255	1 496	460	3 690
Total – Net borrowings	6 339	10 793	673	3 482
Change in the Retirement Plans Sinking Fund, specific pension funds and other employee future benefits⁽⁸⁾	-3 172	-4 162	-4 932	-5 200
Generations Fund	-421⁽⁹⁾	-1 279	-1 584⁽¹⁰⁾	-2 001
TOTAL FINANCING TRANSACTIONS	409	952	-4 208	-5 748

Notes to the tables in Chapter 3

- (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) For certain fiscal years, reclassifications have been made to ensure the data are consistent with the presentation of the public accounts for the subsequent fiscal year.
- (3) Excludes 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.
- (4) 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.
- (5) With line-by-line consolidation, the investments, loans and advances, capital expenditures and other accounts of the networks are taken into account in the net financial requirements as of 2009-2010.
- (6) The accrued benefits expense corresponds to the actuarial value of benefits accrued during the year, calculated according to the actuarial projected benefit method prorated on years of service.
- (7) A sum of \$1 000 million from the Generations Fund was used for the repayment of borrowings in 2013-2014.
- (8) These funds are intended to cover the retirement benefits of public and parapublic sector employees, accumulated sick leave and survivor's pensions for government employees. Their investment income is reinvested and applied against the interest on obligations relating to the retirement plans and other employee future benefits.
- (9) The change in the balance of the Generations Fund in 2013-2014 includes dedicated revenues of \$1 121 million, a deposit of \$300 million out of the Territorial Information Fund and the use of \$1 000 million for the repayment of borrowings.
- (10) The change in the balance of the Generations Fund in 2015-2016 includes dedicated revenues of \$1 453 million and a deposit of \$131 million from the accumulated surplus of the Commission des normes du travail.

4. DEBT OF THE QUÉBEC GOVERNMENT

TABLE F.18

Debt of the Québec government⁽¹⁾

	Consolidated direct debt ⁽²⁾		Net retirement plans and employee future benefits liability ⁽³⁾	Less: Generations Fund	Debt ⁽²⁾	
	(\$million)	(% of GDP)	(\$million)	(\$million)	(\$million)	(% of GDP)
Data taking into account line-by-line consolidation of the networks				Gross debt – Networks consolidated line by line		
2019-2020	207 978	47.2	17 155	-14 013	211 120	47.9
2018-2019	203 058	47.6	19 666	-13 306	209 418	49.1
2017-2018	195 550	47.4	21 798	-12 815	204 533	49.6
2016-2017	189 366	48.0	24 647	-10 523	203 490	51.5
2015-2016	185 124	48.1	26 745	-8 522	203 347	52.9
2014-2015	182 723	48.7	28 172	-6 938	203 957	54.3
2013-2014	174 794	48.0	28 672	-5 659	197 807	54.3
2012-2013	168 612	47.6	28 492	-5 238	191 866	54.2
2011-2012	158 887	46.1	28 774	-4 277	183 384	53.2
2010-2011	147 748	45.0	29 125	-3 437	173 436	52.9
2009-2010	136 074	43.3	29 921	-2 677	163 318	51.9
2008-2009 ⁽⁴⁾	129 745	41.3	29 837	-1 952	157 630	50.1
Without line-by-line consolidation of the networks^{(5),(6)}				Gross debt – Networks consolidated at modified equity value		
2008-2009 ⁽⁴⁾	124 629	39.6	29 837	-1 952	152 514	48.5
2007-2008	118 032	38.6	32 426	-1 233	149 225	48.8
2006-2007	110 412	38.0	34 677	-584	144 505	49.7
2005-2006	103 339	36.9	36 389		139 728	49.9
2004-2005	98 842	36.4	38 052		136 894	50.4
2003-2004	93 325	36.0	39 906		133 231	51.4
2002-2003	89 083	35.7	40 052		129 135	51.7
2001-2002	84 451	35.4	39 461		123 912	51.9
2000-2001	80 108	34.8	40 454		120 562	52.4
1999-2000	76 166	35.4	40 595		116 761	54.2
1998-1999	73 803	36.8	41 629		115 432	57.6
1997-1998	69 995	36.3	41 530		111 525	57.8
Before government accounting reforms⁽⁷⁾				Total debt – Data not restated to include the impact of 1997-1998 and 2006-2007 accounting reforms		
1996-1997	52 625	28.5	25 461		78 086	42.3
1995-1996	52 886	29.1	23 624		76 510	42.2
1994-1995	52 468	30.1	21 997		74 465	42.8
1993-1994	45 160	27.4	20 483		65 643	39.8
1992-1993	39 231	24.4	19 668		58 899	36.6
1991-1992	33 106	21.0	18 143		51 249	32.5
1990-1991	29 637	19.0	16 227		45 864	29.5
1989-1990	27 699	18.4	14 320		42 019	28.0
1988-1989	27 091	18.9	12 597		39 688	27.7
1987-1988	26 819	20.4	10 883		37 702	28.7
1986-1987	25 606	21.4	9 353		34 959	29.2
1985-1986	23 633	21.5	7 998		31 631	28.7
1984-1985	21 216	20.6	6 729		27 945	27.1
1983-1984	18 880	20.0	5 545		24 425	25.9
1982-1983	16 485	18.9	4 489		20 974	24.0
1981-1982	14 184	17.2	3 428		17 612	21.4
1980-1981	12 247	16.5	2 420		14 667	19.7
1979-1980	9 472	14.2	1 598		11 070	16.6
1978-1979	8 325	14.0	915		9 240	15.5
1977-1978	7 111	13.3	620		7 731	14.4
1976-1977	6 035	12.4	354		6 389	13.1
1975-1976	4 955	11.9	179		5 134	12.3
1974-1975	4 030	10.9	67		4 097	11.1
1973-1974	3 679	11.7			3 679	11.7
1972-1973	3 309	12.0			3 309	12.0
1971-1972	2 920	11.9			2 920	11.9

TABLE F.19

Net debt of the Québec government^{(1),(8)}

	(\$million)	(% of GDP)
2019-2020	184 642	41.9
2018-2019	183 433	43.0
2017-2018	181 141	43.9
2016-2017	181 755	46.0
2015-2016	185 025	48.1
2014-2015	185 687	49.4
2013-2014	183 415	50.3
2012-2013	180 037	50.9
2011-2012	167 700	48.6
2010-2011	159 333	48.6
2009-2010	151 608	48.2
Without line-by-line consolidation of the networks⁽⁵⁾		
2008-2009	134 237	42.7
2007-2008	124 681	40.7
2006-2007	124 297	42.8
Before government accounting reform in 2006-2007⁽⁹⁾		
2005-2006	104 683	37.4
2004-2005	99 042	36.4
2003-2004	97 025	37.4
2002-2003	95 601	38.3
2001-2002	92 772	38.9
2000-2001	88 208	38.3
1999-2000	89 162	41.4
1998-1999	88 810	44.3
1997-1998	88 597	45.9
Before government accounting reforms⁽⁷⁾		
1996-1997	64 833	35.2
1995-1996	61 624	34.0
1994-1995	57 677	33.1
1993-1994	51 837	31.4
1992-1993	46 914	29.2
1991-1992	41 885	26.6
1990-1991	37 558	24.1
1989-1990	34 583	23.0
1988-1989	32 819	22.9
1987-1988	31 115	23.7
1986-1987	28 716	24.0
1985-1986	25 735	23.4
1984-1985	21 455	20.8
1983-1984	17 298	18.4
1982-1983	15 038	17.2
1981-1982	12 569	15.2
1980-1981	14 326	19.2
1979-1980	10 836	16.2
1978-1979	8 460	14.2
1977-1978	7 058	13.2
1976-1977	6 353	13.0
1975-1976	5 044	12.1
1974-1975	4 093	11.1
1973-1974	3 651	11.6
1972-1973	2 992	10.9
1971-1972	2 645	10.8

TABLE F.20

Debt representing accumulated deficits⁽¹⁾

	Debt representing accumulated deficits for the purposes of the public accounts ^{(8),(10)}		Plus: Balance of the stabilization reserve	Debt representing accumulated deficits after taking into account the stabilization reserve	
	(\$million)	(% of GDP)	(\$million)	(\$million)	(% of GDP)
2019-2020	107 032	24.3	2 879	109 911	24.9
2018-2019	108 803	25.5	3 815	112 618	26.4
2017-2018	109 707	26.6	5 402	115 109	27.9
2016-2017	112 849	28.6	4 552	117 401	29.7
2015-2016	117 930	30.7	2 191	120 121	31.2
2014-2015	121 268	32.3		121 268	32.3
2013-2014	122 010	33.5		122 010	33.5
2012-2013	122 615	34.6		122 615	34.6
2011-2012	115 220	33.4		115 220	33.4
2010-2011	111 946	34.1		111 946	34.1
2009-2010	109 125	34.7		109 125	34.7
2008-2009	103 000	32.8	433	103 433	32.9
2007-2008	94 824	31.0	2 301	97 125	31.7
2006-2007	96 124	33.1	1 300	97 424	33.5
Before government accounting reform in 2006-2007⁽⁹⁾					
2005-2006	91 699 ⁽¹¹⁾	32.7		91 699 ⁽¹¹⁾	32.7
2004-2005	87 224	32.1		87 224	32.1
2003-2004	86 290	33.3		86 290	33.3
2002-2003	85 885	34.4		85 885	34.4
2001-2002	84 538	35.4		84 538	35.4
2000-2001	81 042	35.2	950	81 992	35.6
1999-2000	82 469	38.3		82 469	38.3
1998-1999	82 577	41.2		82 577	41.2
1997-1998	82 581	42.8		82 581	42.8
Before government accounting reforms⁽⁷⁾					
1996-1997	64 833	35.2		64 833	35.2
1995-1996	61 624	34.0		61 624	34.0
1994-1995	57 677	33.1		57 677	33.1
1993-1994	51 837	31.4		51 837	31.4
1992-1993	46 914	29.2		46 914	29.2
1991-1992	41 885	26.6		41 885	26.6
1990-1991	37 558	24.1		37 558	24.1
1989-1990	34 583	23.0		34 583	23.0
1988-1989	32 819	22.9		32 819	22.9
1987-1988	31 115	23.7		31 115	23.7
1986-1987	28 716	24.0		28 716	24.0
1985-1986	25 735	23.4		25 735	23.4
1984-1985	21 455	20.8		21 455	20.8
1983-1984	17 298	18.4		17 298	18.4
1982-1983	15 038	17.2		15 038	17.2
1981-1982	12 569	15.2		12 569	15.2
1980-1981	14 326	19.2		14 326	19.2
1979-1980	10 836	16.2		10 836	16.2
1978-1979	8 460	14.2		8 460	14.2
1977-1978	7 058	13.2		7 058	13.2
1976-1977	6 353	13.0		6 353	13.0
1975-1976	5 044	12.1		5 044	12.1
1974-1975	4 093	11.1		4 093	11.1
1973-1974	3 651	11.6		3 651	11.6
1972-1973	2 992	10.9		2 992	10.9
1971-1972	2 645	10.8		2 645	10.8

Notes to the tables in Chapter 4

- (1) The GDP comparisons are based on the GDP for calendar years presented in Table F.26.
- (2) Excludes deferred foreign exchange gains or losses and pre-financing. As of 2017-2018, the debt contracted by the Financing Fund to finance government enterprises and entities not included in the reporting entity is included in the debt, whereas this was previously excluded.
- (3) The net liability of retirement plans and employee future benefits is reduced by the assets of retirement plans and employee future benefits.
- (4) To facilitate the comparability of historical data and due to the amounts involved, two results have been presented for 2008-2009. The first is obtained using the modified equity basis of consolidation for network bodies and the second, using the line-by-line consolidation method. The latter method is used as of fiscal 2009-2010.
- (5) Data for 2009-2010 to 2019-2020 are not comparable to data for previous years.
- (6) Data for 1997-1998 to 2005-2006 have been restated to take into account the impact of the accounting reform in 2006-2007.
- (7) Data for 1971-1972 to 1996-1997 are not comparable to data for 1997-1998 to 2019-2020.
- (8) For certain fiscal years, the data presented are the data restated in the public accounts for the subsequent fiscal year because of accounting changes.
- (9) Data for 1997-1998 to 2005-2006 are not comparable to data for 1971-1972 to 1996-1997 or to data for 2006-2007 to 2019-2020.
- (10) This is debt representing accumulated deficits for the purposes of the public accounts before taking the stabilization reserve into account.
- (11) The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.

5. STATISTICS FOR HISTORICAL ANALYSIS

The budgetary statistics presented in this chapter do not contain any breaks linked to certain accounting reforms. The change in revenue and expenditure is presented on a comparable basis; in other words, it has been adjusted using parametric estimates for the various accounting changes made following the accounting reforms, among others.

- These statistics are provided for historical analysis purposes.
- They reflect the best parametric estimates that could be made by the Ministère des Finances du Québec and will continue to evolve as changes are made to government accounting and hypotheses are refined.

Two major accounting reforms were carried out in 2006-2007 and 2009-2010. These reforms were designed, in particular, to consolidate the health and social services and education networks.

- In this regard, as of 2009-2010, the revenue and expenditure of the networks have been consolidated line by line, like those of non-budget-funded bodies and special funds.
 - Since this consolidation, roughly \$4 billion in own-source revenue of network institutions has been included in the government's consolidated revenue.
 - This includes, among other things, revenue in respect of the school property tax and various user contributions, such as tuition fees.
- These two accounting reforms have thus led to major breaks in the historical budgetary statistics published to date.

This chapter also presents Québec's gross domestic product (GDP) and budgetary surplus (deficit) as of 1971-1972.

Method used to adjust the budgetary statistics according to the impact of accounting changes

When the impact of an accounting reform or an accounting change on historical budgetary statistics as a whole cannot be determined with reasonable effort, a break appears in the chronological series, making them more complicated to interpret.

- To offset such breaks, a statistics adjustment method has been used.

Method used to adjust the statistics

The chronological series have been reconstructed using growth rates for the budgetary statistics, obtained using data from the public accounts and Chapter 1 of this section.

- For 2012-2013 to 2014-2015, growth rates were determined using the public accounts for each year in order to take into account updated data for the previous year that could not be applied to the budgetary statistics as a whole, presented in Chapters 1 to 3.
 - For example, the restated data for 2012-2013 contained in Public Accounts 2013-2014 were used to determine the growth rate for consolidated revenue in 2013-2014 on the basis of a more accurate comparison.
- For 2006-2007 and 2009-2010, where accounting changes cause a break in the chronological series, growth rates are calculated by subtracting the impact of the accounting changes, indicated in the public accounts for those years, from the data in Chapter 1.

Illustration of the calculation of consolidated revenue growth in 2009-2010

(millions of dollars and per cent)

	Data from Chapter 1	Less: Impact	Comparable data	Growth rate
2009-2010	78 649	3 706	74 943	2.3
2008-2009	73 270		73 270	

Those growth rates are then used to estimate, retroactively, the trajectory that the budgetary statistics would have followed if all of the accounting changes had been applied to the data for prior years.

- In other words, the marginal impact of this restatement on growth rates is then applied to all of the previous years.
- For example, the adjusted consolidated revenue for 2012-2013 was determined by dividing that same revenue for 2013-2014 by the previously calculated growth rate between those two years.

Lastly, marginal differences were distributed among the series to ensure consistency with the balance.

TABLE F.21

Summary of consolidated results for historical analysis⁽¹⁾

	Consolidated revenue			Consolidated expenditure			Surplus (deficit)
	(\$million)	(% change)	(% of GDP)	(\$million)	(% change)	(% of GDP)	(\$million)
2019-2020	113 359	3.4	25.5	-111 488	2.6	25.1	1 871 ⁽²⁾
2018-2019	109 597	2.2	25.5	-108 693	4.5	25.3	904
2017-2018	107 196	4.2	25.8	-104 054	5.6	25.0	3 142
2016-2017	102 907	2.8	25.8	-98 545	2.1	24.7	4 362
2015-2016	100 146	4.3	25.9	-96 502	0.7	25.0	3 644
2014-2015	95 983	2.9	25.3	-95 847	0.9	25.3	136
2013-2014	93 297	6.1	25.5	-95 000	5.1	25.9	-1 703
2012-2013	87 902	2.0	24.7	-90 417	2.7	25.4	-2 515
2011-2012	86 214	4.3	24.8	-88 002	3.5	25.3	-1 788
2010-2011	82 675	5.4	24.9	-85 065	4.5	25.6	-2 390
2009-2010	78 428	2.3	24.7	-81 368	4.5	25.6	-2 940
2008-2009	76 641	0.2	24.4	-77 899	4.1	24.8	-1 258
2007-2008	76 467	5.1	24.8	-74 817	5.7	24.3	1 650
2006-2007	72 780	8.2	24.7	-70 787	5.3	24.0	1 993
2005-2006	67 260	5.9	23.8	-67 223	4.7	23.8	37
2004-2005	63 525	4.6	23.2	-64 189	5.1	23.4	-664
2003-2004	60 715	4.4	23.2	-61 073	3.7	23.3	-358
2002-2003	58 168	4.9	23.0	-58 896	4.4	23.3	-728
2001-2002	55 468	-0.8	23.0	-56 396	3.4	23.4	-928
2000-2001	55 939	7.5	24.0	-54 562	4.9	23.4	1 377
1999-2000	52 029	1.5	23.7	-52 022	1.7	23.7	7
1998-1999	51 270	10.1	25.2	-51 144	5.0	25.1	126

TABLE F.22

Consolidated revenue for historical analysis⁽¹⁾

	Own-source revenue ⁽²⁾			Revenue from government enterprises	Federal transfers		Consolidated revenue		
	(\$million)	(% change)	(% of GDP)		(\$million)	(% change)	(\$million)	(% change)	(% of GDP)
2019-2020	84 125	3.1	18.9	4 470	24 764	4.6	113 359	3.4	25.5
2018-2019	81 591	2.3	19.0	4 332	23 674	4.4	109 597	2.2	25.5
2017-2018	79 792	2.5	19.2	4 735	22 669	12.3	107 196	4.2	25.8
2016-2017	77 829	2.1	19.5	4 899	20 179	6.8	102 907	2.8	25.8
2015-2016	76 232	5.8	19.7	5 013	18 901	2.0	100 146	4.3	25.9
2014-2015	72 037	3.6	19.0	5 407	18 539	0.0	95 983	2.9	25.3
2013-2014	69 510	3.3	19.0	5 241	18 546	6.0	93 297	6.1	25.5
2012-2013	67 286	4.3	18.9	3 117	17 499	2.2	87 902	2.0	24.7
2011-2012	64 515	6.9	18.5	4 585	17 114	-3.2	86 214	4.3	24.8
2010-2011	60 332	6.9	18.2	4 670	17 673	2.2	82 675	5.4	24.9
2009-2010	56 433	0.1	17.7	4 709	17 286	12.0	78 428	2.3	24.7
2008-2009	56 376	-0.3	17.9	4 835	15 430	2.5	76 641	0.2	24.4
2007-2008	56 566	3.7	18.4	4 842	15 059	23.0	76 467	5.1	24.8
2006-2007	54 542	5.8	18.5	5 995	12 243	7.9	72 780	8.2	24.7
2005-2006	51 531	4.7	18.2	4 384	11 345	11.9	67 260	5.9	23.8
2004-2005	49 204	5.3	17.9	4 183	10 138	-1.8	63 525	4.6	23.2
2003-2004	46 724	4.1	17.9	3 671	10 320	7.0	60 715	4.4	23.2
2002-2003	44 901	4.0	17.8	3 621	9 646	-0.1	58 168	4.9	23.0
2001-2002	43 188	-2.1	17.9	2 626	9 654	14.0	55 468	-0.8	23.0
2000-2001	44 113	6.0	18.9	3 358	8 468	27.3	55 939	7.5	24.0
1999-2000	41 600	4.5	19.0	3 776	6 653	-21.3	52 029	1.5	23.7
1998-1999	39 809	6.6	19.6	3 011	8 450	28.3	51 270	10.1	25.2

TABLE F.23

Consolidated expenditure for historical analysis⁽¹⁾

	Mission expenditures			Debt service			Consolidated expenditure		
	(\$million)	(% change)	(% of GDP)	(\$million)	(% change)	(% of revenue)	(\$million)	(% change)	(% of GDP)
2019-2020	-102 066	2.8	23.0	-9 422	0.4	8.3	-111 488	2.6	25.1
2018-2019	-99 313	4.7	23.1	-9 380	1.5	8.6	-108 693	4.5	25.3
2017-2018	-94 817	6.5	22.8	-9 237	-3.0	8.6	-104 054	5.6	25.0
2016-2017	-89 018	2.9	22.3	-9 527	-4.8	9.3	-98 545	2.1	24.7
2015-2016	-86 493	1.1	22.4	-10 009	-2.5	10.0	-96 502	0.7	25.0
2014-2015	-85 577	1.4	22.6	-10 270	-3.1	10.7	-95 847	0.9	25.3
2013-2014	-84 400	4.7	23.0	-10 600	7.7	11.4	-95 000	5.1	25.9
2012-2013	-80 576	2.6	22.6	-9 841	4.1	11.2	-90 417	2.7	25.4
2011-2012	-78 553	3.2	22.6	-9 449	5.8	11.0	-88 002	3.5	25.3
2010-2011	-76 132	3.5	22.9	-8 933	13.9	10.8	-85 065	4.5	25.6
2009-2010	-73 525	5.5	23.1	-7 843	-4.4	10.0	-81 368	4.5	25.6
2008-2009	-69 694	5.6	22.2	-8 205	-7.2	10.7	-77 899	4.1	24.8
2007-2008	-65 973	6.5	21.4	-8 844	0.3	11.6	-74 817	5.7	24.3
2006-2007	-61 969	4.4	21.0	-8 818	11.9	12.1	-70 787	5.3	24.0
2005-2006	-59 344	5.2	21.0	-7 879	1.5	11.7	-67 223	4.7	23.8
2004-2005	-56 426	5.4	20.6	-7 763	2.9	12.2	-64 189	5.1	23.4
2003-2004	-53 526	4.0	20.5	-7 547	1.5	12.4	-61 073	3.7	23.3
2002-2003	-51 464	5.4	20.4	-7 432	-1.8	12.8	-58 896	4.4	23.3
2001-2002	-48 829	4.7	20.3	-7 567	-4.6	13.6	-56 396	3.4	23.4
2000-2001	-46 626	5.2	20.0	-7 936	3.2	14.2	-54 562	4.9	23.4
1999-2000	-44 334	1.6	20.2	-7 688	2.6	14.8	-52 022	1.7	23.7
1998-1999	-43 649	6.3	21.4	-7 495	-2.0	14.6	-51 144	5.0	25.1

TABLE F.24

Mission expenditures for historical analysis⁽¹⁾

	Health and Social Services		Education and Culture		Economy and Environment		Support for Individuals and Families		Administration and Justice		Mission expenditures	
	(\$million)	(% change)	(\$million)	(% change)	(\$million)	(% change)	(\$million)	(% change)	(\$million)	(% change)	(\$million)	(% change)
2019-2020	-43 768	4.1	-24 645	3.6	-14 338	-0.3	-10 489	1.1	-8 826	1.2	-102 066	2.8
2018-2019	-42 062	4.6 ⁽⁴⁾	-23 781	5.0 ⁽⁴⁾	-14 374	3.9	-10 372	3.3 ⁽⁴⁾	-8 724	8.3	-99 313	4.7
2017-2018	-40 240	3.9	-22 572	4.3	-13 833	12.1	-10 113	5.5	-8 059	20.1	-94 817	6.5
2016-2017	-38 737	3.2	-21 646	3.1	-12 338	5.3	-9 585	-0.1	-6 712	0.9	-89 018	2.9
2015-2016	-37 527	1.9	-20 997	0.6	-11 720	1.4	-9 594	-0.8	-6 655	0.0	-86 493	1.1
2014-2015	-36 819	3.3	-20 870	1.4	-11 557	-3.7	-9 676	1.1	-6 655	0.5	-85 577	1.4
2013-2014	-35 634	4.7	-20 572	5.5	-11 996	5.1	-9 574	2.3	-6 624	5.9	-84 400	4.7
2012-2013	-34 047	5.2	-19 494	1.0	-11 419	-2.9	-9 363	2.2	-6 253	4.5	-80 576	2.6
2011-2012	-32 360	4.2	-19 292	3.8	-11 758	1.8	-9 161	2.7	-5 982	-0.3	-78 553	3.2
2010-2011	-31 069	3.9	-18 594	3.8	-11 552	7.0	-8 916	3.5	-6 001	-4.7	-76 132	3.5
2009-2010	-29 910	6.8	-17 908	3.2	-10 794	6.6	-8 617	4.0	-6 296	6.4	-73 525	5.5
2008-2009	-28 008	6.7	-17 357	3.9	-10 126	6.0	-8 288	1.7	-5 915	11.0	-69 694	5.6
2007-2008	-26 239	6.8	-16 703	7.6	-9 551	9.7	-8 153	2.5	-5 327	2.1	-65 973	6.5
2006-2007	-24 561	4.8	-15 528	0.6	-8 710	8.7	-7 953	4.1	-5 217	8.3	-61 969	4.4
2005-2006	-23 440	4.4	-15 433	4.0	-8 015	8.1	-7 638	9.5	-4 818	1.6	-59 344	5.2
2004-2005	-22 457	8.1	-14 834	2.6	-7 416	0.1	-6 976	5.5	-4 743	11.0	-56 426	5.4
2003-2004	-20 779	6.8	-14 453	3.8	-7 407	0.6	-6 613	1.9	-4 274	1.1	-53 526	4.0
2002-2003	-19 459	4.9	-13 924	5.0	-7 364	7.0	-6 489	2.5	-4 228	11.5	-51 464	5.4
2001-2002	-18 558	6.6	-13 266	3.3	-6 884	-0.8	-6 329	5.3	-3 792	11.1	-48 829	4.7
2000-2001	-17 411	8.9	-12 848	3.6	-6 942	2.4	-6 013	-0.4	-3 412	9.0	-46 626	5.2
1999-2000	-15 990	1.8	-12 396	3.4	-6 780	6.6	-6 039	-3.9	-3 129	-5.5	-44 334	1.6
1998-1999	-15 704	13.2	-11 992	2.7	-6 360	9.5	-6 281	5.3	-3 312	-11.9	-43 649	6.3

TABLE F.25

Nominal gross domestic product (GDP) in fiscal years and surplus (deficit)

	GDP		Surplus (deficit) in the public accounts	
	(\$million)	(% change)	(\$million)	(% of GDP)
2019-2020	444 184	3.3	1 771	0.4
2018-2019	430 024	3.5	904	0.2
2017-2018	415 597	4.1	3 142	0.8
2016-2017	399 242	3.3	4 362	1.1
2015-2016	386 477	2.0	3 644	0.9
2014-2015	378 911	3.4	136	0.0
2013-2014	366 432	2.8	-1 703	-0.5
2012-2013	356 580	2.5	-2 515	-0.7
2011-2012	347 909	4.8	-1 788	-0.5
2010-2011	331 889	4.3	-2 390	-0.7
2009-2010	318 159	1.3	-2 940	-0.9
2008-2009	314 122	2.0	-1 258	-0.4
2007-2008	307 962	4.6	1 650	0.5
2006-2007	294 534	4.2	1 993	0.7
2005-2006	282 637	3.0	37	0.0
2004-2005	274 372	4.9	-664	-0.2
2003-2004	261 676	3.6	-358	-0.1
2002-2003	252 462	4.9	-728	-0.3
2001-2002	240 696	3.2	-928	-0.4
2000-2001	233 217	6.3	1 377	0.6
1999-2000	219 451	7.8	7	0.0
1998-1999	203 534	4.5	126	0.1
1997-1998	194 745	4.7	-2 157	-1.1
1996-1997	186 059	2.2	-3 212	-1.7
1995-1996	182 114	3.2	-3 947	-2.2
1994-1995	176 473	5.8	-5 821	-3.3
1993-1994	166 753	3.2	-4 923	-3.0
1992-1993	161 638	2.0	-5 030	-3.1
1991-1992	158 430	1.5	-4 301	-2.7
1990-1991	156 072	2.8	-2 975	-1.9
1989-1990	151 869	4.5	-1 764	-1.2
1988-1989	145 317	7.8	-1 704	-1.2
1987-1988	134 812	10.2	-2 396	-1.8
1986-1987	122 312	8.9	-2 972	-2.4
1985-1986	112 323	7.2	-3 473	-3.1
1984-1985	104 758	8.2	-3 873	-3.7
1983-1984	96 813	9.8	-2 164	-2.2
1982-1983	88 151	4.9	-2 463	-2.8
1981-1982	84 071	n/a	-2 621	-3.1
Quarterly GDP data not available before 1981-1982⁽⁵⁾				
1980-1981			-3 481	
1979-1980			-2 400	
1978-1979			-1 498	
1977-1978			-704	
1976-1977			-1 176	
1975-1976			-951	
1974-1975			-442	
1973-1974			-659	
1972-1973			-347	
1971-1972			-355	

TABLE F.26

Nominal gross domestic product (GDP) in calendar years⁽⁶⁾

	(\$million)	(% change)
2019	440 599	3.3
2018	426 606	3.5
2017	412 293	4.4
2016	394 819	2.7
2015	384 511	2.4
2014	375 513	3.0
2013	364 530	3.0
2012	354 045	2.7
2011	344 734	5.1
2010	328 137	4.3
2009	314 540	0.1
2008	314 380	2.7
2007	306 029	5.3
2006	290 555	3.7
2005	280 131	3.0
2004	271 848	4.9
2003	259 118	3.8
2002	249 687	4.7
2001	238 570	3.6
2000	230 286	6.9
1999	215 447	7.6
1998	200 311	3.8
1997	192 963	4.6
1996	184 431	1.6
1995	181 476	4.2
1994	174 084	5.6
1993	164 862	2.5
1992	160 876	2.1
1991	157 519	1.2
1990	155 692	3.6
1989	150 304	4.9
1988	143 225	9.1
1987	131 318	9.6
1986	119 828	8.8
1985	110 112	6.9
1984	103 018	9.4
1983	94 172	7.9
1982	87 287	5.9
1981	82 460	10.8
1980	74 438	11.6
1979	66 688	12.1
1978	59 507	11.1
1977	53 553	9.8
1976	48 778	16.9
1975	41 721	12.9
1974	36 969	17.7
1973	31 416	14.2
1972	27 503	12.4
1971	24 476	7.9

Notes to the tables in Chapter 5

- (1) The data presented are forecasts for 2017-2018 to 2019-2020, actual data for 2016-2017 and adjusted data for 2015-2016 and previous years. Comparisons to GDP are based on the GDP of financial years, which are presented in Table F.25.
- (2) Excludes the contingency reserve of \$100 million in 2019-2020.
- (3) Excludes revenue from government enterprises.
- (4) To assess growth in 2018-2019 using spending levels determined on a comparable basis, the percentage changes for that year were calculated by excluding, from 2017-2018 expenditures, transfers from the provision for francization attributed to the Health and Social Services mission (\$12 million) and the Support for Individuals and Families mission (\$75 million) and including them in the 2017-2018 expenditures of the Education and Culture mission.
- (5) The GDP in financial years cannot be determined for years prior to 1981-1982 as the data were only recorded by calendar year.
- (6) Statistics on the GDP prior to 1981 are based on data provided by the Institut de la statistique du Québec covering the period of 1961 to 2010. However, this data on nominal GDP are estimates based on Statistics Canada's 1993 System of National Accounts and differ slightly from the data currently published for the period of 1981 to 2016, which are based on the 2008 System of National Accounts. Therefore, an adjustment was made to the data for 1971 to 1980 in order to make them more consistent with the data based on the 2008 System of National Accounts.

Section G

SENSITIVITY ANALYSIS OF ECONOMIC AND FISCAL VARIABLES

- 1. Sensitivity of Québec’s GDP to external variables G.3
- 2. Sensitivity of revenue to economic fluctuations G.5
 - 2.1 Sensitivity of own-source revenue to economic fluctuations G.5
 - 2.2 Sensitivity of revenue from government enterprises G.6
 - 2.3 Sensitivity of federal transfer revenues to economic and demographic variables..... G.7
- 3. Sensitivity of expenditures to economic and fiscal fluctuations..... G.9
 - 3.1 Sensitivity of program spending..... G.9
 - 3.2 Sensitivity of debt service to a change in interest rates, the return on the Retirement Plans Sinking Fund and exchange rates G.12

1. SENSITIVITY OF QUÉBEC'S GDP TO EXTERNAL VARIABLES

The financial framework's forecasts incorporate certain components of uncertainty that do not depend on the government directly, but which may cause actual results to differ from the forecasts.

Given that the Québec economy is characterized by considerable openness to trade, Québec's economic variables are influenced by several external factors.

— The most important of these factors are related to the economic activity of Québec's main trading partners, namely the United States and the Canadian provinces.

□ Impact of external variables on the Québec economy

The results of an analysis conducted with a structural vector autoregression (VAR)¹ model on the basis of historical data show that a change of 1% in U.S. real GDP entails on average a change of 0.5% in Québec's real GDP.

— The maximum effect is felt two quarters later.

Moreover, the same model makes it possible to conclude that a change of 1% in Ontario's real GDP gives rise on average to a change of 0.4% in Québec's real GDP.

— The maximum effect is captured two quarters later as well.

Ontario is the Canadian province with which Québec has the most commercial ties, in addition to having a similar economic structure. In 2014, exports to Ontario accounted for more than 57% of Québec's interprovincial exports.

TABLE G.1

Impact of external shocks on Québec's real GDP growth rate

External shocks of 1 %	Maturity ⁽¹⁾ (quarters)	Impact on Québec's real GDP (percentage points)
U.S. real GDP	2	0.5
Ontario real GDP	2	0.4

(1) Maturity corresponds to the number of quarters needed for the greatest impact on Québec's real GDP, presented in the right-hand column, to be recorded.

Sources: Institut de la statistique du Québec, Ontario Ministry of Finance, IHS Markit, Statistics Canada, Bloomberg and Ministère des Finances du Québec.

¹ This econometric technique is used to estimate, on the basis of numerous observations, the extent to which fluctuations in one economic variable affect another economic variable. Estimate of the Ministère des Finances du Québec.

2. SENSITIVITY OF REVENUE TO ECONOMIC FLUCTUATIONS

2.1 Sensitivity of own-source revenue to economic fluctuations

In general, the nominal GDP forecast is a very good indicator of growth in own-source revenue given the direct link between tax bases and nominal GDP.

- According to the overall sensitivity analysis, a change of 1 percentage point in nominal GDP has an impact of about \$650 million on the government's own-source revenue.

This sensitivity analysis is based on a revision of each tax base in proportion to the revision of nominal GDP.

- In reality, a change in economic outlook can have a greater impact on some economic variables, as well as greater repercussions on certain tax bases and smaller ones on others.

TABLE G.2

Sensitivity of own-source revenue to major economic variables

Variable	Growth forecasts for 2018	Impacts for fiscal 2018-2019
Nominal GDP	3.5%	A variation of 1 percentage point changes own-source revenue by roughly \$650 million.
– Wages and salaries	4.1%	A variation of 1 percentage point changes personal income tax revenue by about \$295 million.
– Employment insurance	-2.7%	A variation of 1 percentage point changes personal income tax revenue by roughly \$5 million.
– Pension income	6.0%	A variation of 1 percentage point changes personal income tax revenue by around \$45 million.
– Net operating surplus of corporations	4.9%	A variation of 1 percentage point changes corporate tax revenue by roughly \$35 million.
– Household consumption	4.3%	A variation of 1 percentage point changes QST revenue by about \$180 million.
– Residential investments	5.5%	A variation of 1 percentage point changes QST revenue by approximately \$20 million.

Sensitivity analyses set an average historical relationship between the change in own-source revenue and growth in nominal GDP. Accordingly, they may prove inaccurate for a given year depending on the economic situation and yet not lose their validity.

- Indeed, for a given year, economic fluctuations may have various impacts on revenue because of changes in the behaviour of economic agents.
- In these situations, the change in own-source revenue can be greater or lower than the change in nominal GDP.

2.2 Sensitivity of revenue from government enterprises

Forecasts for revenue from government enterprises vary depending mainly on the results of Hydro-Québec, which account for nearly half of revenue from government enterprises.

Hydro-Québec takes into account normal temperatures and average hydraulicity to determine its forecasts. It also considers the electricity rates fixed by the Régie de l'énergie.

■ Sensitivity of revenue from Hydro-Québec

The sensitivity analysis of revenue from Hydro-Québec is based on information provided by the corporation and taking into account the anticipated change in the key determinants of its revenue.

For example, in 2018, a variation of:

- 1.0 ¢/kWh in the market price of energy would change Hydro-Québec's revenue by nearly \$150 million;
- a 1-percentage-point adjustment by the Régie de l'énergie in the electricity rates charged to Québec consumers would change Hydro-Québec's revenue by nearly \$110 million;
- 1°C in winter temperatures compared to normal temperatures would change Hydro-Québec's revenue by nearly \$50 million.

2.3 Sensitivity of federal transfer revenues to economic and demographic variables

The forecast for revenue from equalization, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST) is based, in particular, on the following economic and demographic variables:

- growth of Canada's nominal GDP, because the respective envelope, except for the CST, grows in pace with Canada's nominal GDP;
- growth in wages and salaries, which is the main indicator of basic federal income tax, which determines:
 - Québec's fiscal capacity in regard to the personal income tax base considered in the equalization program,
 - the value of the special Québec abatement, which is subtracted from the CHT and the CST (accounting for 62% and 38%, respectively, of the 13.5 basic federal income tax points);
- Québec's share of the population among the provinces given that:
 - equalization revenue is calculated on the basis of a province's per capita fiscal capacity,
 - the CHT and the CST are allocated on a per capita basis.

In addition to the forecast for equalization revenue, the sensitivity analysis also takes into account the net operating surplus of corporations, which is the main indicator of taxable corporate income, which determines Québec's fiscal capacity in regard to the corporate income tax base

Sensitivity analyses may not apply for a given year because of special economic conditions or changes made by the federal government to the operation of these transfers.

In addition, the sensitivity analysis of equalization revenue is based on an increase of 1 percentage point in the growth of Québec's economic variables, without any impact on those of the other provinces.

TABLE G.3

Sensitivity of federal transfer revenues to major economic and demographic variables

Variable	Growth forecasts for 2018	Impacts for fiscal 2018-2019
Nominal GDP		
– Equalization	4.0% ⁽¹⁾	An increase of 1 percentage point raises equalization revenue by roughly \$20 million.
– CHT	4.0% ⁽¹⁾	An increase of 1 percentage point raises CHT revenue by about \$30 million.
Wages and salaries		
– Equalization ⁽²⁾	4.1%	An increase of 1 percentage point reduces equalization revenue by approximately \$40 million.
– CHT and CST	4.1%	An increase of 1 percentage point reduces CHT and CST revenues by around \$45 million.
Québec's share of the population		
– Equalization ⁽²⁾	22.8%	An increase of 1 percentage point raises equalization revenue by roughly \$60 million.
– CHT and CST	22.8%	An increase of 1 percentage point raises CHT and CST revenues by approximately \$50 million.
Net operating surplus of corporations		
– Equalization ⁽²⁾	4.9%	An increase of 1 percentage point reduces equalization revenue by about \$5 million.

(1) The growth of 4.0% in Canada's nominal GDP in 2018 is based on federal calculations for 2018-2019 regarding equalization and the CHT and will not be revised. The impacts for 2018-2019 are provided for purposes of illustration.

(2) Due to the two-year lag in the equalization formula, increased growth in 2018 will have an impact as of 2020-2021. The impact for the years 2018-2019 and 2019-2020 is nil.

3. SENSITIVITY OF EXPENDITURES TO ECONOMIC AND FISCAL FLUCTUATIONS

3.1 Sensitivity of program spending

The financial framework's forecasts take into account:

- budgetary choices, which stem from the prioritization of certain sectors over others in the allocation of spending;
- economic variables, which are tied to price factors (inflation) and demographic factors (changes in population).

The following tables show the estimated sensitivity of program spending to certain changes at the budgetary level as well as in economic factors.

In that regard, it should be noted that such estimates constitute indications and that impacts may vary depending on the nature and interaction of risk factors.

■ Budgetary choices

Program spending may vary according to the budgetary choices made by the government in allocating its available budgetary resources.

Accordingly, a variation of 1% in the program spending of:

- the Santé et Services sociaux portfolio would lead to a variation of about \$390 million in such spending;
- the Éducation et Enseignement supérieur portfolio would lead to a variation of roughly \$190 million in such spending;
- the Famille portfolio would lead to a variation of approximately \$30 million in such spending.

TABLE G.4

Sensitivity of program spending to a variation of 1% in each portfolio (millions of dollars)

	Impact for fiscal 2018-2019
Santé et Services sociaux	390
Éducation et Enseignement supérieur ⁽¹⁾	190
Famille	30
Other portfolios	170

(1) Program spending before taking into account the reform of the school tax system.

❑ **Economic variables**

The analysis conducted also made it possible to estimate the sensitivity of program spending to certain important external variables.

■ **Prices**

Public spending is influenced by the price of services funded by the government. The change in the price of such services is closely tied to the change in the general level of prices in the economy, that is, inflation.

Accordingly, a uniform variation in prices could lead to variations in program spending.

— However, a large share of spending consists of government employee remuneration, which changes based on collective agreements. Therefore, a variation in prices would not affect that portion of spending.

The results show that a variation of 1% in prices would lead to a variation of \$260 million, or 0.3 percentage point, in total spending.

— In particular, spending for the Santé et Services sociaux portfolio would vary by 0.3 percentage point and that for the Éducation et Enseignement supérieur portfolio by 0.1 percentage point; spending related to the Famille and the Travail, Emploi et Solidarité sociale portfolios would each vary by 0.9 percentage point.

■ **Population**

Spending is also affected by changes in total population and by changes in the make-up of the clientele for certain services, in particular.

For example, a change of 1% in total population would change spending by \$540 million, that is, 0.7 percentage point of total spending.

— Spending would vary by 0.7 percentage point for the Santé et Services sociaux portfolio and 0.8 percentage point for the Éducation et Enseignement supérieur portfolio.

A change of 1% in the number of people aged 0-4, that is, the population that affects, in particular, the demand for childcare services, would have a \$40 million impact on total spending.

— The Famille portfolio would be affected the most by a change of this type. Its spending would vary by 1.0 percentage point.

A change of 1% in the number of people aged 65 and over would lead to a variation of \$170 million in total spending.

— Spending for the Santé et Services sociaux portfolio would vary by 0.4 percentage point.

TABLE G.5

**Sensitivity of program spending to a variation of 1%
in each economic variable**

Economic variables		Impact for fiscal 2018-2019	
		(\$million)	(percentage points)
Prices			
Inflation	Total spending	260	0.3
	By portfolio:		
	– Santé et Services sociaux		0.3
	– Éducation et Enseignement supérieur		0.1
	– Famille		0.9
	– Travail, Emploi et Solidarité sociale		0.9
	– Other		0.5
Population			
Total population	Total spending	540	0.7
	By portfolio:		
	– Santé et Services sociaux		0.7
	– Éducation et Enseignement supérieur		0.8
	– Famille		1.0
	– Other		0.6
0-4 years	Total spending	40	0.1
	By portfolio:		
	– Famille		1.0
5-16 years	Total spending	100	0.1
	By portfolio:		
	– Éducation et Enseignement supérieur		0.4
17-24 years	Total spending	100	0.1
	By portfolio:		
	– Éducation et Enseignement supérieur		0.4
65 years and over	Total spending	170	0.2
	By portfolio:		
	– Santé et Services sociaux		0.4

3.2 Sensitivity of debt service to a change in interest rates, the return on the Retirement Plans Sinking Fund and exchange rates

A greater-than-anticipated rise in interest rates of 1 percentage point over a full year would increase the interest expenditure by roughly \$250 million.

A return of 1 percentage point less than the anticipated return on the Retirement Plans Sinking Fund (RPSF) would lead to a \$20 million increase in debt service the following year. The income of the RPSF is applied against debt service.

A change in the value of the Canadian dollar relative to other currencies would have no impact on debt service because the government's debt has no foreign currency exposure.

Section H

SUPPORT FOR THE TAXI INDUSTRY

1. Support for the Taxi Industry	H.3
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1. SUPPORT FOR THE TAXI INDUSTRY

□ An industry undergoing a transformation

In December 2017, a working group was established by the government, under the coordination of the Ministère des Finances, bringing together representatives of this department and of the Ministère des Transports, de la Mobilité durable et de l'Électrification des transports and representatives of the taxi industry, to examine the economic impacts of the modernization of the taxi industry as well as financial assistance that could be provided in the context of this transformation.

The government wishes to continue the discussions with the industry via the working group in order to identify solutions that could help modernize this industry, which is currently undergoing a period of significant changes due to new technologies, among other factors.

Although the working group has not yet determined the long-term impacts of the industry's transformation, the data clearly points to a drop in the resale value of taxi permits, particularly in the Montréal, Québec and Gatineau regions.

Uncertainty concerning this transformation has already had an impact on the individuals affected and their families. Therefore, in the interest of fairness, the government has chosen not to wait for the working group to conclude its work before taking action.

■ Support for taxi owner's permit holders

As such, the government commits to providing \$250 million to compensate taxi owner's permit holders for the loss in value of their permits.

— The government will consult the industry soon, via the working group, regarding the terms and conditions for distributing this amount.

This significant financial support, which will help modernize this industry, will be drawn from the Land Transport Network Fund.

■ Extension of pilot projects

Moreover, to better understand how new practices are impacting transportation services and to meet the population's expectations in this regard, the Minister of Transport, Sustainable Mobility and Transport Electrification has implemented a number of pilot projects aimed at testing various operating modes for the paid passenger transportation industry, in particular through the use of electric taxis and mobile applications.

These pilot projects are significant as they contribute to a more comprehensive approach to mobility in which the government makes passengers the focus of its concerns. Some of these pilot projects are set to end in the fall of 2018. The government plans to extend them by one year in order to properly assess their impacts before deciding on further action.

■ **Additional assistance to taxi drivers**

In addition to assisting taxi permit holders, the government plans to offer financial support to taxi driver's permit holders through a temporary increase of the refundable tax credit to which they are entitled. This increase, which will be applied to the taxation years 2017 and 2018, will be up to \$500 per year, bringing the total amount of additional assistance to approximately \$20 million over two years.

- This assistance is in addition to the \$44 million already announced to promote the modernization of the industry.