



AMMAR COUSINEAU ALTMAN TÉLIO HADID

Comptables agréés • Chartered Accountants
Société en nom collectif • General Partnership

Quebec Budget Summary

March 23, 2006



Table of Contents

	Page
Introduction	1
1. MEASURES CONCERNING INDIVIDUALS	1
1.1 Increase from \$500 to \$1,000 in the deduction for workers	1
1.2 Increase in the refundable tax credit for home support for elderly persons	1
1.2.1 Clarifications concerning certain home support services	2
1.2.2 Determination of eligible expenses included in charges resulting from co-ownership	2
1.3 Introduction of tax relief for employee transit passes	2
1.3.1 Non-taxation of benefits granted to employees	3
1.4 Improvement in the tax treatment of donations and gifts	3
1.4.1 Improvement of the tax credit for donations and gifts	3
1.4.2 Extension of the carry-forward period for donations or gifts made by corporations	3
1.4.3 Gifts of musical instruments to institutions offering musical training	3
1.4.4 Gifts to Quebec museums	4
1.5 Eligible expenses for the refundable tax credit for child-care expenses	4
1.6 Introduction of a deduction for foreign farm workers	4
1.7 Opportunity for artists to defer taxation on a greater portion of their income	4
1.8 Adjustments to the refundable tax credit for adoption expenses	4
1.9 Conversion of the tax credit for new graduates working in remote resource regions	5
1.10 Calculation of earned income for the purposes of the measures intended exclusively for workers	5
2. MEASURES CONCERNING BUSINESSES	5
2.1 Lower tax rate for small businesses	5
2.2 Support for the forest sector	5
2.2.1 Capital tax credit extended and raised to 15% regarding certain investments in the forest sector	5
2.2.2 Introduction of a temporary refundable tax credit for the construction of public access roads and bridges in forest areas	6
2.2.3 Income averaging for forest producers	6
2.3 Introduction of a temporary refundable tax credit for the acquisition of pig manure treatment facilities	6
2.4 Renewal of and improvement to the refundable tax credit for on-the-job training periods	6
2.4.1 Standard application of the tax credit in all regions	6
2.5 Adjustments to refundable tax credits for R&D	7
2.5.1 Withdrawal of spin-offs	7
2.5.2 Changes to the tax credit for R&D salary	7
2.5.3 Correction of various technical problems	8
2.6 Adjustments to the refundable tax credit for design	8
2.7 Measures concerning culture	8
2.7.1 Broadening of the refundable tax credit for the production of sound recordings	8
2.7.2 Adjustments to the refundable tax credit for Quebec film and television production	9
2.7.3 Adjustment of the refundable tax credit for book publishing	9
2.8 Clarification regarding the eligibility of droits de suite for the refundable tax credits for the production of multimedia titles	9
2.9 Increase in the deduction for renovations or alterations to improve access to a building	10

Table of Contents

	Page
2.10	Introduction of a tax credit for the hiring of employees specializing in financial derivatives10
2.11	Withdrawal of installation activities for the purpose of various refundable tax credits granted in certain regions10
2.12	Changes to the refundable tax credit for major job-creating projects10
3.	MEASURES CONCERNING CONSUMPTION TAXES.....11
3.1	Measures to curb tobacco smuggling.....11
3.1.1	Increase in fines11
3.2	Other measures.....11
3.3	Refund of the first \$1,000 of Quebec sales tax paid on a hybrid vehicle11
4.	OTHER MEASURES.....11
4.1	Tax treatment applicable to taxable dividends11
4.2	Reduction in the tax assistance for the acquisition of Capital régional et coopératif Desjardins shares12
4.3	Measures concerning the Cooperative Investment Plan (CIP)12
4.3.1	Special tax on the excess capital of shareholding workers cooperatives12
4.3.2	Redemption of securities eligible for the CIP12
4.4	Improvement to the refundable tax credit respecting the reporting of tips13
4.5	Measures to counter tax evasion in the restaurant sector13
4.5.1	Obligation to remit invoices13
4.5.2	Obligation to use cash registers equipped with a microcomputer approved by Revenu Québec.....13
4.6	Measures relating to Aboriginal taxation14
4.6.1	Participation of Indians exempt from income tax in the Quebec Pension Plan14
4.6.2	Measures relating to municipal or public bodies that perform a function of government.....14
4.6.3	Persons of Indian ancestry14
5.	FEDERAL LEGISLATION AND REGULATIONS.....14

INTRODUCTION

Finance Minister Michel Audet tabled the Quebec government's 2006-2007 Budget before the National Assembly on March 23, 2006.

"I am tabling today a responsible budget, a budget with a vision, built on four main objectives:

- ongoing improvement of our health and social services system and our education system;
- wealth creation in a sustainable development context;
- infrastructure development and repair;
- debt burden reduction to ensure greater inter-generational equity."

The following is a summary of the measures he announced.

1. MEASURES CONCERNING INDIVIDUALS

1.1 *Increase from \$500 to \$1,000 in the deduction for workers*

The maximum amount of the deduction for workers will be doubled, from \$500 to \$1,000, as of the 2007 taxation year.

1.2 *Increase in the refundable tax credit for home support for elderly persons*

The list below gives an overview of the principal changes that will be made, as of the 2007 taxation year, to the parameters of the refundable tax credit for home support for elderly persons.

OVERVIEW OF THE PRINCIPAL CHANGES TO BE MADE TO THE TAX CREDIT

Basic parameters

- Increase in the tax credit rate from 23% to 25%
- Increase in the eligible expenses limit from \$12,000 to \$15,000
- Introduction of a \$300 deductible

Payment of the tax credit

- Claiming the tax credit on the income tax return
- Advance payment of the tax credit by Revenu Québec

Recognized home support services

- Eligibility of nursing services as recognized home support services

Amount of eligible expenses

- New rules for determining eligible expenses included in charges resulting from co-ownership

1.2.1 Clarifications concerning certain home support services

Clothing care service

The tax legislation will be amended to extend clothing care services to household linens and to stipulate that a service for the care of clothing and household linens provided for the benefit of an elderly person, by a person or partnership whose principal business consists in providing dry cleaning, laundering, pressing and related services, will be eligible only if it is provided at the residence for elderly persons where the elderly person concerned lives.

Maintenance service consisting of minor maintenance work performed outside of a dwelling

The tax legislation will be amended to provide that minor maintenance work performed outside of a dwelling includes work that generally recurs each year on a more or less set date in keeping with the change in seasons, such as the installation and removal of seasonal shelters.

Maintenance service consisting of minor maintenance work performed inside an immovable

The tax legislation will be amended to provide that a maintenance service consisting of minor maintenance work performed inside an immovable is considered a maintenance or supply service, where the work is related to a facility, such as a pool, which, by reason of its nature or intended use, could have been located outside the immovable.

1.2.2 Determination of eligible expenses included in charges resulting from co-ownership

The tax legislation will be amended to provide that the eligible expenses of an elderly person for a given taxation year with regard to charges resulting from co-ownership correspond to the amount obtained by applying the elderly person's share of the charges resulting from co-ownership to the total amount paid during the year by the syndicate of co-owners for recognized home support services in respect of common portions.

Moreover, the tax regulations will be amended to provide that, upon request, syndicates of co-owners must file an information return on a prescribed form, where the request is made no later than the end of the calendar year for which the return is to be filed.

1.3 *Introduction of tax relief for employee transit passes*

Currently, employers may deduct 100% of the costs incurred to supply their employees with transit passes. The 2006-2007 Budget raises this tax deduction to 200%.

The additional deduction of 100% related to employee transit passes will apply to reimbursements, after March 23, 2006, of the cost of subscription-type transit passes, paratransit passes or transit passes supplied by employers, valid for a

period after March 31, 2006, up to the portion of the reimbursements that is attributable to that period,.

1.3.1 Non-taxation of benefits granted to employees

The tax legislation will be amended to provide that individuals are not required to include, in the calculation of their income from an office or employment, the value of a benefit relating to transit passes that was received because of, or in the course of, the office or employment.

1.4 *Improvement in the tax treatment of donations and gifts*

1.4.1 Improvement of the tax credit for donations and gifts

The tax legislation will be amended, as of the 2006 taxation year, to reduce the threshold above which the tax credit applies to a rate of 24%. More specifically, the threshold of \$2,000 will be lowered to \$200.

Thus, the first \$200 taken into consideration in the calculation of the tax assistance for donations made by an individual will give entitlement to a tax credit calculated at a rate of 20%, while a rate of 24% will apply to the remainder.

1.4.2 Extension of the carry-forward period for donations or gifts made by corporations

The tax legislation will be amended to extend the carry-forward period for donations made by corporations from five to 20 years.

This amendment will apply to donations made by a corporation during a taxation year ending after March 23, 2006.

1.4.3 Gifts of musical instruments to institutions offering musical training

Capital gains exemption

The tax legislation will be amended to stipulate that no capital gain will result from the gift of a musical instrument, where this gift is made to a recognized educational institution.

Tax credit or deduction for donations and gifts

The limit, generally set at 75% of the donor's income, on the total of the eligible amounts of the gifts used to calculate the tax credit or the deduction for donations and gifts, as the case may be, will not apply.

Moreover, the presumption intended to limit, for the purposes of calculating the eligible amount of a gift, the fair market value of the property donated to its cost or its adjusted cost base, as the case may be, will not apply for the purposes of calculating the eligible amount of a gift of a musical instrument made to a recognized educational institution.

These measures will apply to gifts made to a recognized educational institution after March 23, 2006.

1.4.4 Gifts to Quebec museums

Gifts of certain property made to Quebec's four major museums

In order to better support the acquisition of property by Quebec museums, the tax legislation will be amended to stipulate that a gift of property made after March 23, 2006 to a museum established under the *National Museums Act* or the *Act respecting the Montreal Museum of Fine Arts* will be considered a gift of cultural property that gives entitlement to the advantageous tax treatment associated with this type of gift.

1.5 Eligible expenses for the refundable tax credit for child-care expenses

Currently, parents of school-age children cannot benefit from a reduced contribution for the care of their children during the spring break.

In order to better reconcile work and family responsibilities, the government intends to offer parents, beginning in the 2006-2007 school year, the option of paying, during the spring break, a contribution of \$14 per day for the care of school-age children (kindergarten and elementary school) who use school child-care services during that period.

This new reduced contribution, unlike the contribution of \$7 per day, will give entitlement to the refundable tax credit for child-care expenses.

1.6 Introduction of a deduction for foreign farm workers

Tax assistance will be introduced, beginning in the 2006 taxation year, making a portion of the income earned from employment carried on in Quebec by eligible seasonal farm workers from abroad non taxable.

1.7 Opportunity for artists to defer taxation on a greater portion of their income

The excluded amount used for the purposes of determining the maximum amount that can be used to acquire an eligible income-averaging annuity will be reduced from \$50,000 to \$25,000 beginning in the 2006 taxation year.

1.8 Adjustments to the refundable tax credit for adoption expenses

The tax legislation will be amended to include, in the list of the expenses that are eligible for the refundable tax credit for adoption expenses, expenses that arise due to a requirement imposed by a government authority during the adoption of a child.

This amendment will apply as of the 2006 taxation year.

1.9 Conversion of the tax credit for new graduates working in remote resource regions

The tax assistance will be granted, as of the 2006 taxation year, in the form of a non-refundable tax credit and spread out over a minimum of three years.

Essentially, the non-refundable tax credit will enable young graduates to reduce their income tax payable by up to \$3,000 a year, without exceeding a total of \$8,000, as long as they reside continuously in a remote resource region and hold in that region a job related to their field of specialization.

1.10 Calculation of earned income for the purposes of the measures intended exclusively for workers

The tax legislation will be amended to stipulate that an individual whose income from an office or employment for a given year is comprised solely of the value of benefits received by reason of a previous office or employment may not take that income into account for the purposes of these measures.

In addition, the tax legislation will be amended to provide that business income or losses that may be taken into account for the purposes of the application of the refundable tax credit attributing a work premium must be from a business the individual carries on alone or as a partner actively engaged in the business.

These changes will apply as of the 2006 taxation year.

2. MEASURES CONCERNING BUSINESSES

2.1 Lower tax rate for small businesses

The small tax rate applicable to the business ceiling of corporations will again be reduced, from 8.5% to 8%, as of March 24, 2006.

2.2 Support for the forest sector

2.2.1 Capital tax credit extended and raised to 15% regarding certain investments in the forest sector

The rate of the capital tax credit will be raised to 15% regarding eligible investments in this sector, and the period during which such investments can be made will be extended until December 31, 2009.

The investments eligible are manufacturing and processing equipment, i.e. assets of class 43, used mainly in the following activities:

- sawmill and wood preservation activities;
- activities involved in the making of veneers, plywood and reconstituted wood products, excluding the making of wood structural products;
- the activities of pulp, paper and cardboard plants.

2.2.2 Introduction of a temporary refundable tax credit for the construction of public access roads and bridges in forest areas

A corporation, other than an excluded corporation, that, during a taxation year, carries on a business in Quebec, has an establishment there and is a party to timber supply and forest management agreement, a forest management agreement or a forest management contract reached with the ministère des Ressources naturelles et de la Faune may, under certain conditions, receive the tax credit for such year corresponding to 40% of the amount of eligible expenses incurred after March 23, 2006 and before January 1, 2011.

2.2.3 Income averaging for forest producers

An amount not exceeding 80% of the income of an eligible owner and derived from the sale, to a buyer with an establishment in Quebec, of timber relating to the operation of a private woodlot, for a taxation year ended after March 23, 2006 and no later than December 31, 2009, may be deducted in calculating the taxable income of the eligible owner.

2.3 Introduction of a temporary refundable tax credit for the acquisition of pig manure treatment facilities

An individual or a corporation that carries on a farm business in Quebec and is recognized as a pig producer by the ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec, may, under certain conditions, receive the tax credit for such year corresponding to 30% of the amount of eligible expenses.

This tax credit will be capped, for each farm establishment, at \$200,000, for the entire period, incurred after March 23, 2006 and before April 1, 2010.

2.4 Renewal of and improvement to the refundable tax credit for on-the-job training periods

It had been announced that the refundable tax credit for on-the-job training periods was stipulated to end regarding training periods beginning after December 31, 2006. This measure will be made permanent.

The weekly caps on eligible expenditure that are currently \$625 or \$500, as the case may be, will be raised to \$750 and \$600 respectively.

The maximum hourly rate will be raised from \$15 to \$18.

These changes will apply regarding an eligible expenditure incurred after December 31, 2006, regarding an eligible training period beginning after that date.

2.4.1 Standard application of the tax credit in all regions

The weekly eligible expenditure caps for the purposes of the tax credit in an eligible region, which are respectively \$1,250 and \$1,000, and the maximum hourly rate of wages and salaries which is \$25, will be abolished. Consequently, the new weekly caps and the new maximum hourly rate will apply to such training periods.

This change will apply regarding an eligible expenditure incurred after December 31, 2006, regarding an eligible training period beginning after that date.

2.5 Adjustments to refundable tax credits for R&D

2.5.1 Withdrawal of spin-offs

The tax legislation will be amended so that:

- an R&D project that comes under the component that involves the development of practical applications for research findings will no longer be eligible for the tax credit for university R&D;
- an R&D project carried out as part of a public-private partnership will no longer be eligible for the tax credit for pre-competitive R&D;
- the tax credit for pre-competitive R&D is abolished.

The tax credit for pre-competitive R&D will be replaced with the refundable tax credit for pre-competitive private partnership research (tax credit for “private partnership R&D”) that will apply to R&D projects that exclusively involve a private-private partnership.

The rate of this tax credit will be 35% and will apply to all eligible R&D expenditures or to 80% of the amount of a research contract, where the R&D work is subcontracted to a person or a partnership with which the taxpayer is at arm's length.

Moreover, to be eligible for the tax credit, a person or a partnership will be required to carry on a business in Quebec and have an establishment there to which the R&D work must relate.

A “private-private partnership” means a partnership of which none of the partners is, among others:

- an eligible university entity;
- an eligible public research centre;
- an eligible research consortium;
- a public organization.

Accordingly, a taxpayer will be required to obtain a favourable advance ruling from Revenu Québec.

2.5.2 Changes to the tax credit for R&D salary

For a taxpayer who, previously, would have benefited from the component that involves the development of practical applications for research findings of the tax credit for university R&D, or the tax credit for pre-competitive R&D, as the case may be, to benefit from the tax credit for R&D salary, such tax credit will be changed to allow participation by a public partner.

Moreover, the general contributions rule will be maintained.

These changes will apply to R&D expenditures incurred after March 23, 2006, regarding R&D work done after that day, under a contract concluded after that day, if applicable.

2.5.3 Correction of various technical problems

Twelve-month period for filing documents

According to existing tax legislation, even though a taxpayer has filed, for a taxation year, the prescribed form containing the information relating to eligible expenditures for the purposes of a tax credit for R&D, no later than 12 months after the filing due date applicable to him for the year, he may not claim a different tax credit for R&D for the same year if the form especially prescribed for the latter tax credit is filed after such twelve-month period.

Accordingly, the legislation will be amended to stipulate that the fact that a taxpayer has already filed, for a taxation year, the prescribed form, will be sufficient to authorize a claim for a different tax credit for R&D for the same taxation year.

Ineligibility of certain expenditures

The tax legislation will be amended so that the R&D expenditures that are ineligible for the purposes of the university R&D, pre-competitive R&D and R&D consortium tax credits are also ineligible for the purposes of the R&D salary tax credit, such as legal or accounting fees.

These changes will apply to R&D expenditures incurred after March 23, 2006.

2.6 *Adjustments to the refundable tax credit for design*

A corporation's minimum percentage of production in Quebec is 20% of its total production, for the preceding fiscal year or, if the corporation is in its first fiscal year, at the end of such fiscal year in the fashion sector.

Concerning the industrial sector, a corporation's minimum percentage of production in Quebec is 50%, which percentage is applied in the same way as in the fashion sector.

The minimum percentages of production in Quebec will no longer apply solely to goods that the corporation makes itself, but also to the goods produced under subcontract to the corporation. This adjustment will apply both in the fashion sector and the industrial sector.

These changes will apply to an eligibility certificate issued after April 21, 2005.

2.7 *Measures concerning culture*

2.7.1 **Broadening of the refundable tax credit for the production of sound recordings**

To enable digital audio-visual recordings and clips to give rise to tax assistance, changes will be made in particular to the types of productions eligible for the tax credit for the production of sound recordings.

These changes will apply in relation to a digital audio-visual recording or a clip regarding which an application for an advance ruling is filed with SODEC after March 23, 2006.

The tax legislation will be amended to stipulate that eligible production work, in relation to an eligible digital audio-visual recording or clip, will include the stages of production of the video material of such property from the initial design to the recording of the master tape but do not include activities relating to its promotion, dissemination or distribution.

The tax legislation will be amended to add the pressing stage to the eligible production work of a corporation regarding an eligible sound recording or an eligible digital audio-visual recording, including the design of the jacket, mastering the property and duplication of its media.

However, only expenses incurred within 18 months of releasing such recording, up to such expenditures and expenses relating to the pressing of the first 20,000 copies of the recording, give rise to a tax credit for the production of sound recordings.

The tax credit regarding an eligible digital audio-visual recording may not exceed \$43,750 at any time. The tax credit regarding an eligible clip may not exceed \$21,875 at any time.

2.7.2 Adjustments to the refundable tax credit for Quebec film and television production

Changes will be made to the criteria for granting the enhancement for French-language co-productions, as well as to the eligibility criteria of a television series.

More specifically, the Regulation will be amended to withdraw the requirement that each episode that is part of a series must qualify under the same category of eligible productions for all of the episodes of such series to be recognized as Quebec films.

2.7.3 Adjustment of the refundable tax credit for book publishing

The regulations relating to the tax credit for book publishing will be amended to remove the possibility for a corporation of publishing a book under the trademark of a third party.

2.8 Clarification regarding the eligibility of droits de suite for the refundable tax credits for the production of multimedia titles

The tax legislation will be clarified to stipulate that *droits de suite* will be included in the labour expenditure for the purposes of the general component and the tax credit for specialized corporations, and to circumscribe the object of such inclusion.

A clarification will be made to the tax legislation to stipulate that the labour expenditure incurred within a taxation year by an eligible corporation does not include remuneration based on the profits or receipts from the use of the multimedia title.

The application of this amendment will be declaratory, except for taxation years prescribed on March 23, 2006.

2.9 *Increase in the deduction for renovations or alterations to improve access to a building*

The tax legislation will be amended to stipulate that a taxpayer may deduct, in calculating his income from a business or property, the portion of the amount he paid during the year for renovations or alterations made to a building he uses mainly to earn such income, and regarding which he holds an eligibility certificate issued by the Régie du bâtiment, according to which such renovations or alterations incorporate the obstacle-free design standards set out in the Building Code.

These changes will apply regarding renovation or alteration expenditures incurred after March 23, 2006.

2.10 *Introduction of a tax credit for the hiring of employees specializing in financial derivatives*

This non-refundable tax credit will allow an eligible corporation that employs, during a taxation year, an eligible specialized employee, to claim a tax credit equal to 20% of the eligible salary paid to such employee (\$1,500 maximum), for such year, for any week or part thereof within the period covered by an eligibility certificate issued by the ministère des Finances du Québec regarding such eligible specialized employee.

This measure will apply regarding the eligible salary paid by an eligible corporation after March 23, 2006.

2.11 *Withdrawal of installation activities for the purpose of various refundable tax credits granted in certain regions*

The notion of certified business will be changed to exclude installation activities incidental to the manufacturing or processing activities carried out by a corporation or a corporation associated with it. This change will apply as of March 23, 2006.

2.12 *Changes to the refundable tax credit for major job-creating projects*

The notion of eligible corporation will be streamlined to enable a corporation that carries out an eligible contract concluded by another corporation, in a business continuation situation, to receive the refundable tax credit regarding major job-creating projects.

The application details of the refundable tax credit for major job-creating projects will be changed to specify that an eligible corporation must not only achieve the minimum job creation threshold, but also maintain this threshold for a period whose length will be established according to the length of the eligible contract.

The application of these changes will be declaratory.

3. MEASURES CONCERNING CONSUMPTION TAXES

3.1 *Measures to curb tobacco smuggling*

3.1.1 Increase in fines

The amounts of all the fines provided for under the tobacco tax system will be increased by 50%. Moreover, these amounts will increase considerably in the case of repeat offences within a five-year period.

This measure will come into force on the date the bill giving effect thereto is assented to.

3.2 *Other measures*

- Full fuel tax refund to public carriers
- Fuel tax refund in respect of biodiesel fuel
- Further reduction of the specific tax applicable to alcoholic beverages sold by small-scale producers

3.3 *Refund of the first \$1,000 of Quebec sales tax paid on a hybrid vehicle*

A person who purchases or takes out a long-term lease on a new hybrid vehicle, prescribed by the Minister of Revenue, will be entitled to claim a refund of the QST paid in respect of the sale or leasing of that vehicle, up to a maximum of \$1,000. However, this refund may not be claimed by a person who is a registrant under the QST system, or by a person who is entitled to a refund of the QST paid in respect of this sale or leasing under other provisions of this system.

To claim this QST refund, the buyer or lessor of a hybrid vehicle must apply to Revenu Québec using the prescribed form accompanied by the prescribed supporting documents, and must satisfy the prescribed terms and conditions.

This measure will apply to a new hybrid vehicle that has been purchased or for which a long-term lease has been taken out after March 23, 2006 and before January 1, 2009.

4. OTHER MEASURES

4.1 *Tax treatment applicable to taxable dividends*

Harmonization of the Quebec legislation

The Quebec legislation will be amended to increase the gross-up of dividend income from 25% to 45% for dividend income consisting of eligible dividends.

The gross-up of all taxable dividend income other than eligible dividend income will stay the same, at 25%.

However, these measures will not be adopted until after the approval of any federal law or the adoption of any federal regulation arising from the announcement made on November 23, 2005, taking into account technical

amendments that might be made prior to the approval of the law or the adoption of the regulation.

Adjustment of the dividend tax credit

The Quebec dividend tax credit will be increased for dividend income consisting of eligible dividends to equal 11.9% of the grossed-up dividend.

The Quebec dividend tax credit applicable to dividend income other than an eligible dividend will be reduced to equal 8% of the grossed-up dividend.

Consequently, the maximum combined federal/Quebec tax rate applicable to dividends will decrease from 32.82% to 29.65% for an eligible dividend and increase to 36.36% for other dividends.

These changes will apply to dividends that are paid or are deemed to have been paid after March 23, 2006.

4.2 *Reduction in the tax assistance for the acquisition of Capital régional et coopératif Desjardins shares*

Reduction of the tax assistance for the acquisition of Capital régional et coopératif Desjardins shares

The rate used to calculate the tax credit respecting the acquisition of Capital régional et coopératif Desjardins shares will be lowered from 50% to 35% for shares acquired after March 23, 2006. Thus, the maximum amount that individuals may deduct will decrease from \$1,250 to \$875.

Lifting of the moratorium

The moratorium on the issue of Capital régional et coopératif Desjardins shares will be lifted on March 24, 2006.

4.3 *Measures concerning the Cooperative Investment Plan (CIP)*

4.3.1 *Special tax on the excess capital of shareholding workers cooperatives*

The special tax applicable to the excess capital of shareholding workers cooperatives needed to be maintained. However, investments in the form of debentures may be taken into account for the purposes of calculating the special tax, retroactively to the 2004 calendar year, i.e. the first year in which the special tax could be applied.

4.3.2 *Redemption of securities eligible for the CIP*

The CIP provides for a penalty if a cooperative redeems or refunds a security before the minimum five-year holding period has expired. The amount of the penalty, payable by the cooperative, is equal to 30% of the amount of the security redeemed or refunded.

Changes will therefore be made to ease this condition in respect of a security issued by a cooperative after March 23, 2006.

4.4 *Improvement to the refundable tax credit respecting the reporting of tips*

The tax legislation will be amended to stipulate that expenses eligible for the tax credit will include the portion of the indemnities for statutory general holidays and for days of leave for family or parental matters that is attributable to tips and that was paid in the taxation year or the fiscal year.

These amendments will apply to indemnities for statutory general holidays or for all absences recognized for family or parental matters paid after March 23, 2006.

4.5 *Measures to counter tax evasion in the restaurant sector*

4.5.1 *Obligation to remit invoices*

The tax legislation will be amended to require restaurant operators to remit to all customers to whom they supply goods and services an invoice showing the transaction.

Restaurant operators who fail to remit an invoice to a customer will incur a penalty of \$100 as a result of this omission and will commit an offence for which they will be liable to a fine of no less than \$300 and no more than \$5,000. For a second offence committed within five years, the fine will be no less than \$1,000 and no more than \$10,000, and for any subsequent offence within that period, no less than \$5,000 and no more than \$50,000.

Restaurant operators will have to keep a copy of the invoice as a supporting document for the information contained in the registers they are required to keep under the tax legislation.

This measure will apply to sales of goods and services made by restaurant operators as of the effective date of any regulation adopted under the implementing bill.

4.5.2 *Obligation to use cash registers equipped with a microcomputer approved by Revenu Québec*

No later than January 1, 2011, all restaurant operators who are required to remit invoices to their customers will have to use a cash register equipped with a microcomputer housed in a secure casing to prepare such invoices and keep a register of their sales.

The purpose of such microcomputers, which will be approved by Revenu Québec, will be to enter and store all information pertaining to sales of goods and services made by restaurant operators to their customers, which information will be the same as that which will have to appear on the invoices to be remitted.

Restaurant operators who are registered for the Quebec sales tax will also have to provide, along with the tax return that is to be filed under Quebec's sales tax system for each of their reporting periods, a report on the sales recorded by the microcomputer in each of those periods.

Revenu Québec will specify all of the rules relating to the compulsory use of cash registers equipped with a microcomputer, as well as the penalties and fines entailed by contravention of the new obligations stemming from the introduction of this measure.

4.6 Measures relating to Aboriginal taxation

4.6.1 Participation of Indians exempt from income tax in the Quebec Pension Plan

Indians whose income is exempt from income tax will have the option to participate in the QPP.

4.6.2 Measures relating to municipal or public bodies that perform a function of government

Quebec's tax legislation will be amended to incorporate, with adaptations based on its general principles, the federal measures granting a tax exemption to entities of which not less than 90% of the capital is owned by a municipal or public body performing a function of government in Canada. Such bodies include, among others, an Indian band that, like a municipality, supervises the delivery of essential services and programs offered to all residents of a territory.

4.6.3 Persons of Indian ancestry

Quebec's tax legislation and regulations will be amended to restrict the application of the tax exemption principles solely to individuals who are Indians, within the meaning of the *Indian Act*.

In regard to income tax, these changes will be effective as of the 2007 taxation year. For the purposes of the QST and fuel tax systems, they will apply respectively to supplies and purchases made after March 23, 2006.

5. FEDERAL LEGISLATION AND REGULATIONS

The ministère des Finances specified that, generally speaking, Quebec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the various legislative amendments announced on December 20, 2002. This will also be the case of the legislative proposals announced on July 18, 2005, and of those set out in the News release 2005-080 of November 17, 2005. However, these measures will be adopted only after the approval of any federal law or the adoption of any federal regulation arising from it, taking into account amendments that might be made prior to the approval of the law or the adoption of the regulation, and will generally apply on the same dates as for federal income tax purposes.

The amendment allowing an employee to deduct certain amounts paid on his behalf which, had he received them, would have been required to be included in computing his income, will be adapted so as to make it applicable to the tax credit respecting dues to a professional association or a union.

Should you require additional information concerning this provincial budget, please do not hesitate to contact us at:

AMMAR COUSINEAU ALTMAN TÉLIO HADID

Chartered Accountants

1 Westmount Square, suite 250

Westmount, Quebec H3Z 2P9

Tel.: 514-931-4411

Fax: 514-931-3066

E-mail: acath@acath.qc.ca