

Quebec Budget Summary

February 20, 2007



Table of Contents

	Page
INTRODUCTION	1
1. MEASURES CONCERNING INDIVIDUALS	1
1.1 Personal income tax reduction	1
1.2 Improvement of the tax system pertaining to education.....	1
1.2.1 Introduction of a refundable tax credit to support education savings.....	1
1.2.1.1 Determination of the tax credit	2
1.2.1.2 Application date.....	2
1.2.2 Changes to the rules of the tax credit for minor children engaged in vocational training or postsecondary studies	2
1.2.3 Replacement of the tax credit for adult children who are students with a transfer mechanism for the recognized parental contribution.....	2
1.2.3.1 Transfer rules	2
1.2.3.2 Limit applicable to the transfer	3
1.2.3.3 Consequential amendments	3
1.2.4 Increase in the amount for persons living alone.....	3
1.2.5 Transfer to the parents or grandparents of the unused portion of the tax credit for tuition fees and examination fees.....	3
1.2.5.1 Transfer rules	3
1.2.5.2 Maximum amount transferable.....	4
1.3 Enhancement of the tax credit for retirement income	4
1.4 Introduction of a refundable tax credit for people providing respite to informal caregivers	4
1.4.1 Excluded persons	4
1.4.2 Volunteer respite services	4
1.4.3 Informal caregiver.....	4
1.4.4 Care recipient	5
1.4.5 Information return	5
1.5 Simplification and enhancement of the refundable tax credit for child care expenses	5
1.5.1 Simplification of the application of the tax credit	5
1.6 Enhancement of the refundable tax credit for the treatment of infertility.....	5
2. MEASURES CONCERNING BUSINESSES.....	6
2.1 Extension of and improvement to the capital tax credit.....	6
2.1.1 Basic tax credit	6
2.1.2 Extension of the higher 15% credit.....	6
2.2 Increase in the tax on capital exemption threshold of a farming corporation or a corporation that carries on a fishing business.....	6
2.3 Major reduction in the corporate tax rate applicable to passive income	6
2.4 Measures concerning scientific research and experimental development.....	7
2.4.1 Change to the requirement to carry on a business in an establishment located in Quebec	7
2.4.2 Recognition of an eligible public research centre.....	7
2.5 Gradual reduction in the tax holiday granted to manufacturing SMEs in remote resource regions.....	7
2.6 Measures concerning culture	8
2.6.1 Adjustments to the refundable tax credit for Quebec film and television production.....	8
2.6.1.1 Increase in the rate of the tax credit for French-language short and medium-length films.....	8
2.6.1.2 Eligibility of certain games, questionnaires and contests	8

Table of Contents

	Page
2.6.1.3 Government and non-government assistance	8
2.6.2 Concordance changes regarding certain refundable tax credits relating to the cultural field	8
2.6.3 Adjustments to the refundable tax credit for the production of shows and for sound recording production	8
2.6.4 Adjustments to the refundable tax credit for book publishing.....	9
2.6.4.1 Changes to publishing house recognition criteria	9
2.6.4.2 New excluded work	9
2.7 Adjustment to the SME Growth Stock Plan (Accro PME)	9
2.8 Adjustment to the refundable tax credit for the construction, renovation or conversion of strategic buildings in the Mirabel Zone	9
3. MEASURES CONCERNING CONSUMPTION TAXES.....	10
3.1 Rise in the maximum amount of the refund of Quebec sales tax paid on a hybrid vehicle.....	10
4. OTHER MEASURES.....	10
4.1 Free medication for the most disadvantaged	10

INTRODUCTION

As part of the 2007-2008 Budget Speech, Finance Minister Michel Audet announced a number of tax measures for individuals and businesses that take effect as of midnight on February 20, 2007. "Success had already been achieved and this budget will lead to further progress in realizing Quebec's full potential," declared the Finance Minister.

The following is a summary of the measures he announced.

1. MEASURES CONCERNING INDIVIDUALS

1.1 *Personal income tax reduction*

As of January 1, 2008, the brackets of the tax table will be modified as follows:

Illustration of the thresholds and ceilings establishing the taxable income brackets of the tax table for the 2007 and 2008 taxation years
(in dollars)

Marginal Rate	Taxable income bracket	2007	2008 before the budget	2008 after the budget
16%	Taxable income equal to or less than	29,290	29,875	32,000
20%	Taxable income over but not exceeding	29,290 58,595	29,875 59,765	32,000 64,000
24%	Taxable income over	58,595	59,765	64,000

As of January 1, 2009, the thresholds and ceilings establishing the taxable income brackets of the tax table will again be automatically indexed each year.

1.2 *Improvement of the tax system pertaining to education*

1.2.1 **Introduction of a refundable tax credit to support education savings**

Financial assistance, similar to the Canada education savings grant, will be paid through a refundable tax credit for the benefit of children who will be beneficiaries of an RESP. The application terms and conditions will be similar to the Canada education savings grant.

This refundable tax credit will be granted to a trust governed by an education savings plan, up to a maximum of \$3,600 per child, on a cumulative basis.

In general, the financial assistance for education savings provided by the tax credit will be equivalent to 10% of the first \$2,000 of annual contributions to an RESP for children under age 18.

In the case of middle-income families, the government's contribution to their savings effort will consist of financial assistance equal to 15% of the first \$500 of annual contributions to an RESP, while this rate will be 20% for low-income families.

1.2.1.1 *Determination of the tax credit*

A refundable tax credit will correspond to 50% of all the amounts each of which is a Canada education savings grant.

1.2.1.2 *Application date*

The refundable tax credit to support education savings will apply as of the 2007 taxation year regarding a Canada education savings grant that is attributable to a contribution paid to an RESP after February 20, 2007 and is paid for a calendar year after 2006 under the *Canada Education Savings Act*.

1.2.2 Changes to the rules of the tax credit for minor children engaged in vocational training or postsecondary studies

Changes relating to the child's income

The tax legislation will be amended to stipulate that, for the purposes of calculating this tax credit, the amount of recognized essential needs of \$1,860 per term for a minor child must be reduced by an amount equal to 80% of the child's income for the year, determined regardless of the scholarships, fellowships and awards he received in the course of the year and which give rise to a deduction in calculating his taxable income for the year.

Similarly, the tax legislation will be amended, as of the 2007 taxation year, for the purposes of calculating the tax credit for other dependants.

1.2.3 Replacement of the tax credit for adult children who are students with a transfer mechanism for the recognized parental contribution

The tax credit for adult children who are students will be replaced, as of the 2007 taxation year, by a transfer mechanism for the recognized parental contribution.

1.2.3.1 *Transfer rules*

An eligible student, for a given taxation year, may transfer to a person who is his father or his mother, an amount relating to an unused portion of his basic tax credit for the year, provided such amount does not exceed the limit applicable to the transfer for the year.

1.2.3.2 *Limit applicable to the transfer*

The amount that an eligible student can transfer to his father or mother for a given taxation year must not exceed the amount corresponding to the excess, over the tax otherwise payable by the student for the given year, of 20% of either of the following amounts, as the case may be:

- where the eligible student has completed, in the year, at least two recognized terms, the amount of recognized essential needs applicable for the year under the basic tax credit;
- where the eligible student has completed, in the year, only one recognized term, the amount remaining, after subtracting an amount of \$1,860 for studies from the amount of recognized essential needs applicable for the year under the basic tax credit.

1.2.3.3 *Consequential amendments*

Various consequential amendments will be made to the tax legislation as concerns the following credits:

- tax credit for persons living alone;
- refundable Quebec sales tax (QST) credit;
- tax credits for other dependants;
- refundable tax credit for individuals living in a northern village;
- premium payable under the Quebec prescription drug insurance plan;
- refundable tax credit granting a work premium.

1.2.4 Increase in the amount for persons living alone

The tax legislation will be amended to stipulate that, where an individual is entitled, for a given taxation year, to an amount for a person living alone and lived, during such year, with an eligible student – for the purposes of the transfer mechanism for the recognized parental contribution – who has completed, in the year, at least one recognized term, the individual may add an amount for a single-parent family of \$1,465 to the amount for a person living alone if, at the end of the year or on the date of his death, the individual had no child regarding whom he was entitled to a refundable tax credit for child assistance for the last month of the year.

1.2.5 Transfer to the parents or grandparents of the unused portion of the tax credit for tuition fees and examination fees

The portion of the tax credit for tuition fees and examination fees that a student does not use to reduce his tax payable may, as of the 2007 taxation year, be transferred to the parents or grandparents.

1.2.5.1 *Transfer rules*

A student may transfer a portion of his tax credit for tuition fees and examination fees to only one person, from among his father, mother, grandfather and grandmother within the meaning of the tax legislation.

Where a student transfers to one of his ascendants an amount less than the maximum amount transferable, the non-transferred portion will be carried over for future use by the student.

1.2.5.2 *Maximum amount transferable*

The maximum amount transferable by a student for a given taxation year will be equal to the excess of an amount corresponding to 20% of eligible tuition fees and examination fees paid regarding the given year over the amount of tax otherwise payable for the year by the student calculated without taking non-refundable tax credits into account, apart from those that must be applied against the tax otherwise payable for the year by the student.

1.3 ***Enhancement of the tax credit for retirement income***

An individual's maximum eligible retirement income used to determine the tax credit will be raised from \$1,000 to \$1,500 as of the 2007 taxation year.

1.4 ***Introduction of a refundable tax credit for people providing respite to informal caregivers***

Informal caregivers will have the option of allocating every year, from a \$1,000 envelope available to them respecting each person they help, a maximum of \$500, for the purposes of the new tax credit, to any person, other than an excluded person, who provides them with a total of at least 400 hours of volunteer home respite services during the year.

1.4.1 **Excluded persons**

The care recipient's father, mother, child, brother or sister, and their spouse, where applicable, are considered excluded persons.

1.4.2 **Volunteer respite services**

Non-remunerated services provided by an individual at the home of a person recognized as a care recipient are considered volunteer respite services, where they consist in providing care to the recipient, performing tasks normally carried out by the caregiver with respect to the recipient, taking over certain daily tasks of the caregiver so that the latter can be with the care recipient at all times or providing any similar service that gives the caregiver a break.

1.4.3 **Informal caregiver**

"Informal caregiver" refers to a person who lives with the care recipient throughout the period during which volunteer respite services are provided by the eligible individual, and who is the care recipient's spouse or a person in respect of whom the care recipient is an eligible relative, within the meaning of that term

for the purposes of the refundable tax credit for informal caregivers of adult persons.

1.4.4 Care recipient

“Care recipient” refers to an individual with a long-term significant disability who has an intervention plan or individualized service plan established by a health and social services centre, provided the individual:

- has a severe and prolonged impairment in mental or physical functions, where the individual is 18 or over; or
- is a person in regard to whom the supplement for handicapped children is paid, where the individual is a minor.

1.4.5 Information return

Informal caregivers must file an information return with the Minister of Revenue no later than the last day of February of the following year. A copy of the return must be provided to the individual so that he may claim the tax credit.

1.5 *Simplification and enhancement of the refundable tax credit for child care expenses*

1.5.1 Simplification of the application of the tax credit

An individual's qualified child care expenses for a given taxation year will no longer be limited by the individual's earned income or that of the supporting person of the child, these notions having been eliminated. In addition, qualified child care expenses will no longer have to be split, for the purpose of calculating the tax credit, between the individual and his eligible spouse for the year.

Lastly, when the individual and his eligible spouse for the year are both entitled to the tax credit, they must split it between them in accordance with existing rules.

1.6 *Enhancement of the refundable tax credit for the treatment of infertility*

The application of the refundable tax credit for the treatment of infertility will be changed to raise, from 30% to 50%, the rate applicable to the cost of a third or any additional attempt at *in vitro* fertilization.

For greater clarity with regard to the number of attempts, a new series is considered to begin after the birth of a living, viable child.

These changes will apply to embryo transfers carried out as of the day following the date on which the Quebec policy on *in vitro* fertilization comes into effect.

2. MEASURES CONCERNING BUSINESSES

2.1 *Extension of and improvement to the capital tax credit*

2.1.1 **Basic tax credit**

The rate of the basic tax credit will be raised to 10% of the amount of eligible investments and the period during which investments may be made will be extended until December 31, 2012.

The assets covered by the rise in the rate of the capital tax credit to 10% are class 43 assets, acquired after February 20, 2007 and before January 1, 2013.

2.1.2 **Extension of the higher 15% credit**

The rate of the capital tax credit raised to 15% for certain investments made in the forest sector is also extended until December 31, 2012.

2.2 *Increase in the tax on capital exemption threshold of a farming corporation or a corporation that carries on a fishing business*

The amount of the deduction in the calculation of paid-up capital of a farming corporation or a corporation that carries on a fishing business will be raised from \$400,000 to \$5 million.

This change will apply regarding a taxation year ending after February 20, 2007.

2.3 *Major reduction in the corporate tax rate applicable to passive income*

The tax rate applicable to passive income will be reduced to the tax rate applicable to active income ineligible for the small business deduction.

Tax rates applicable to passive income (in %)

	2007 until the budget	2007 after the budget	2008	2009
Tax rates applicable to passive income	16.25	9.9	11.4	11.9
Combined rates Federal and Provincial	52.04	45.69	46.07	46.57

The new rates will become effective after February 20, 2007.

2.4 Measures concerning scientific research and experimental development

2.4.1 Change to the requirement to carry on a business in an establishment located in Quebec

A further amendment will be made to the tax legislation so that R&D expenditures incurred in a fiscal year that began after April 21, 2005 by a person or a partnership whose eligibility for the refundable tax credits for R&D was affected by the amendment announced in the April 21, 2005 Budget Speech can be included in a claim for a refundable tax credit for R&D, by whichever of the following two days is later, i.e. either August 31, 2008, or the last day of a period of twelve months following the filing deadline for the taxation year in which such expenditures were incurred.

2.4.2 Recognition of an eligible public research centre

A new research centre will be recognized for the purposes of the tax credit for university R&D, namely the Centre de santé et de services sociaux de Chicoutimi (CSSS de Chicoutimi).

This recognition will apply regarding R&D carried out after December 31, 2005, under an eligible research contract concluded after such date.

2.5 Gradual reduction in the tax holiday granted to manufacturing SMEs in remote resource regions

The tax holiday percentage a corporation may enjoy will be reduced for calendar years 2008, 2009 and 2010.

**Tax holiday granted
(in %)**

	Current	2008	2009	2010
Tax holiday granted	75	50	25	25

Note: The change in rates will take effect on January 1 of each year.

Furthermore, where the paid-up capital of an eligible corporation applicable for a given taxation year is greater than \$20 million but less than \$30 million, the income from an eligible business regarding which a deduction may be claimed, the deduction in the paid-up capital, as well as the exemption from the employer contribution to the HSF applicable to pay periods ending in such taxation year will continue to be reduced linearly.

2.6 Measures concerning culture

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

2.6.1.1 Increase in the rate of the tax credit for French-language short and medium-length films

The higher rate of the tax credit, namely 39.375%, will henceforth also apply to short and medium-length films of fiction, regarding labour expenditures relating to such a French-language production.

2.6.1.2 Eligibility of certain games, questionnaires and contests

The Regulation respecting the recognition of a film as a Quebec film will be amended to stipulate that games, questionnaires and contests are productions that are eligible for recognition as a Quebec film if at least two thirds of its content consists of performances by performing artists.

These changes will apply in respect to an application for an advance ruling filed with the Société de développement des entreprises culturelles (SODEC) after February 20, 2007.

2.6.1.3 Government and non-government assistance

The tax legislation will be amended to withdraw the exception relating to operating income as part of the application of the notion of government and non-government assistance.

This change will apply regarding an amount received or receivable after February 20, 2007.

2.6.2 Concordance changes regarding certain refundable tax credits relating to the cultural field

Amendments will be made to stipulate that games, questionnaires and contests that are essentially of the nature of a variety show are productions that give rise to these tax credits.

2.6.3 Adjustments to the refundable tax credit for the production of shows and for sound recording production

In general, only shows that satisfy Quebec content criteria stipulated in a point scale give rise to the tax credit for the production of shows. Amendments will be made to this scale.

2.6.4 Adjustments to the refundable tax credit for book publishing

2.6.4.1 *Changes to publishing house recognition criteria*

The regulations relating to the tax credit for book publishing will be amended to stipulate that a corporation must also satisfy the following conditions to be recognized by SODEC as a publishing house:

- the corporation’s chief activity is publishing and it aims to make this activity commercially profitable;
- it has an inventory of at least three works by Quebec authors who do not have a business interest in the corporation.

2.6.4.2 *New excluded work*

The regulations relating to the tax credit for book publishing will be amended to stipulate that books published for corporate or promotional purposes are excluded books for the purposes of the tax credit for book publishing.

The regulations relating to the tax credit for book publishing will be amended to allow the possibility for an eligible corporation to publish a book under the trademark of a third party in the case of books intended for export.

These amendments will apply in relation to applications filed with SODEC after February 20, 2007.

2.7 *Adjustment to the SME Growth Stock Plan (Accro PME)*

The tax legislation will be amended so that the 21-day period following a real withdrawal for the purposes of the coverage deficiency amount (CDA) is replaced by a period beginning the day after the day of a real withdrawal during a given month and ending on the last day of the second month following such given month.

For instance, an investor who makes a real withdrawal from his Accro PME account on March 1 of a given year must cover the withdrawal from this account no later than May 31 of the same year, giving him three months, in this case, to carry out a covering transaction in his Accro PME account.

However, an investor will continue to be required to hold eligible shares in his Accro PME account on December 31 of the year of acquisition and on December 31 of the subsequent three taxation years.

2.8 *Adjustment to the refundable tax credit for the construction, renovation or conversion of strategic buildings in the Mirabel Zone*

All these measures were eliminated in the June 12, 2003 Budget Speech. However, transition rules enable corporations to continue benefiting from them until the end of the period initially stipulated.

In this context, a change will be made to the terms and conditions of the annual certificate that Investissement Quebec issues in relation to strategic buildings, such that the space of a strategic building can also be occupied by businesses not covered by an eligibility certificate for the purposes of the tax benefits relating to the Mirabel Zone, up to 25% of the total space.

3. MEASURES CONCERNING CONSUMPTION TAXES

3.1 *Rise in the maximum amount of the refund of Quebec sales tax paid on a hybrid vehicle*

The QST system will be changed to raise the maximum amount of this refund to \$2,000.

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 February 20, 2007 and before January 1, 2009.

4. OTHER MEASURES

4.1 *Free medication for the most disadvantaged*

People age 65 or over who receive 94% or more of the guaranteed income supplement, and all employment assistance recipients who do not suffer from a severely limited capacity for employment, including in particular those with temporarily limited capacity for employment as well as holders of a claims booklet, will henceforth be able to acquire, free of charge, medication prescribed by their physician.

This measure will come into effect as of July 1, 2007.

NOTICE TO USERS

You are free to reproduce the contents of this Quebec Budget Summary as you please. Acknowledgment of the Ordre des comptables agréés du Québec is at your option, but would be greatly appreciated.

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

The Ordre des comptables agréés du Québec has acted solely as publisher of this Budget Summary. Consequently, neither the Ordre nor any person involved in its preparation accepts any contractual, delictual or other form of liability for its contents or for any consequences arising from its use.

The Ordre wishes to gratefully acknowledge the contribution of Luc Lacombe, CA, M. Fisc., First vice-president, Pratte, Bélanger, Chartered Accountants Inc. and Chantal Amiot, CA, M. Fisc., Director of taxation with the firm Bernard Gagné, CA, as well as that of Jane Finlayson, CICA Language Services, and Daniel Benard, CA, OCAQ Director of Professional Products and Services, and his staff.