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# Quebec Budget Summary

May 24, 2007



**Table of Contents**

	<b>Page</b>
INTRODUCTION .....	1
1. AGREEMENT WITH THE AUDITOR GENERAL OF QUEBEC FOR A JOINT EXAMINATION OF GOVERNMENT ACCOUNTING.....	2
2. MEASURES CONCERNING INDIVIDUALS .....	3
2.1 Increase in tax table thresholds and ceilings.....	3
2.2 Increase in the basic tax credit.....	3
2.3 Clarifications concerning the application of certain fiscal measures .....	4
2.3.1 Transfer of the recognized parental contribution.....	4
3. MEASURES CONCERNING BUSINESSES.....	4
3.1 Elimination of the tax on capital on January 1, 2011 and technical changes.....	4
3.1.1 Substantial reduction in the capital tax from now until its elimination .....	4
3.1.2 Impact of the elimination of the tax on capital on the capital tax credit.....	4
3.2 Withdrawal of the indexing in the determination of the refundable tax credit for processing activities in the resource regions .....	5
4. MEASURES ANNOUNCED ON FEBRUARY 20, 2007 THAT ARE CONFIRMED .....	6
4.1 Improvement of the tax system pertaining to education.....	6
4.1.1 Introduction of a 10% refundable tax credit to support education savings .....	6
4.1.2 Enhancement of the tax credit for retirement income to \$1,500 .....	6
4.1.3 Introduction of a refundable tax credit for people providing respite to informal caregivers .....	6
4.1.4 Simplification and enhancement of the refundable tax credit for child care expenses.....	6
4.1.5 Enhancement of the refundable tax credit for the treatment of infertility from 30% to 50%,.....	6
4.2 Measures concerning businesses .....	6
4.2.1 Extension of and improvement to the capital tax credit.....	6
4.2.2 Increase in the tax on capital exemption threshold of a farming corporation or a corporation that carries on a fishing business .....	6
4.2.3 Major reduction in the corporate tax rate applicable to passive income .....	6
4.2.4 Measures concerning scientific research and experimental development.....	7
4.2.5 Gradual reduction in the tax holiday granted to manufacturing SMEs in remote resource regions .....	7
4.2.6 Measures concerning culture .....	7
4.2.7 Adjustment to the SME Growth Stock Plan (Accro PME) .....	7
4.2.8 Adjustment to the refundable tax credit for the construction, renovation or conversion of strategic buildings in the Mirabel Zone .....	7
4.3 Measures concerning consumption taxes .....	7
4.4 Others measures .....	7
5. MEASURES RELATING TO THE MARCH 19, 2007 FEDERAL BUDGET .....	8
5.1 Measures relating to the Income Tax Act.....	8
5.1.1 Measures retained.....	8
5.2 Measures relating to the Excise Tax Act.....	10
6. APPENDIX : Example of disposable income for a couple with two children and two earned incomes .....	11

## INTRODUCTION

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As part of the 2007-2008 Budget Speech, Finance Minister Monique Jérôme-Forget announced a number of tax measures for individuals and businesses that take effect on May 24, 2007.

“The first budget I am tabling as Minister of Finance is guided by a commitment to discipline and transparency. It addresses the challenges of today’s Quebec. It is an investment in our children’s future.

Our budget contains well-defined priorities, laid out in six points.

- First, we are recognizing the value of work. I am announcing a \$950-million income tax reduction primarily for the middle class.
- Second, we are promoting private investment to create jobs in all regions. I am announcing an accelerated reduction in the tax on capital, which will be completely eliminated after December 31, 2010.
- Third, we are renovating our schools and hospitals and repairing our roads. I am announcing a \$30-billion investment over five years in our infrastructure.
- Fourth, we are making a determined effort to pay down the debt. I am announcing that electricity exports will soon enable us to raise our contributions to the Generations Fund by \$400 million a year.
- Fifth, we are making our administration a model of transparency. I am announcing that we have reached an agreement with the Auditor General of Quebec to review the government’s accounting practices.
- Sixth, we are continuing to modernize government. This budget refocuses government action on the two main priorities of Quebecers—health and education. Consequently, I am announcing that five government services will be turned over to the private sector and that an additional 3,800 public service jobs will be eliminated over three years,” declared the Finance Minister.

The following is a summary of the measures she announced.

## 1. **AGREEMENT WITH THE AUDITOR GENERAL OF QUEBEC FOR A JOINT EXAMINATION OF GOVERNMENT ACCOUNTING**

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The government has applied the accounting practices in effect since the reform of 1998. That reform was carried out with the help of the Auditor General at that time, Guy Breton. Accounting practices for public administrations in Canada have changed since then. The Canadian Institute of Chartered Accountants established new standards that are now applied in whole or in part by public administrations across Canada. An agreement has been concluded with the Auditor General of Quebec for a joint examination of government accounting. This examination will lead to a major reform of the government's accounting practices.

The Auditor General is of the opinion that the government reporting entity should include, for example, hospitals, school boards and CEGEPs. When the work with the Auditor General is completed, the government will proceed with the orderly incorporation of these institutions into the government reporting entity.

As of the next budget, or even in the fall when the public accounts are tabled, if enough progress has been made, a number of changes to the accounting practices will be in effect.

The new *Act respecting the governance of state-owned enterprises*, passed last fall, will give more powers to the Auditor General of Quebec. Under this Act, the Auditor General's financial auditing role will be extended to all government agencies and corporations. The Act states that, by 2010, the Auditor General will partner with an independent firm to audit the books and accounts of the six main government corporations with a financial or commercial mission, and those of the Caisse de dépôt et placement du Quebec. As of 2007-2008, the Auditor General will co-audit the financial statements of the Société des alcools du Quebec and the Société générale de financement; the financial statements of the Régie des installations olympiques, the Société des établissements de plein air du Quebec and the Agence métropolitaine de transport.

## 2. MEASURES CONCERNING INDIVIDUALS

In the February 20, 2007 Budget Speech, it was announced that a personal income tax reduction of \$250 million would be granted as of January 1, 2008.

The government will allocate an additional \$700 million to the reduction in personal income tax stipulated for January 1, 2008.

### 2.1 Increase in tax table thresholds and ceilings

The thresholds and ceilings used to determine the taxable income brackets used to calculate the tax payable by an individual on his taxable income will be increased, as will the amount used to calculate the basic tax credit granted to all individuals.<sup>1</sup>

#### Basic parameters used to calculate tax payable by individuals for taxation years 2007 and 2008

	2007	2008 Before budget	2008 After budget
<b>Table used to calculate tax payable</b>			
<b>Marginal rate</b>	<b>Taxable income bracket</b>		
16%	Taxable income equal to or less than		
	\$29,290	\$29,875	\$37,500
20%	Taxable income over but not exceeding		
	\$29,290	\$29,875	\$37,500
	\$58,595	\$59,765	\$75,000
24%	Taxable income over		
	\$58,595	\$59,765	\$75,000
Amount used to calculate the basic tax credit	\$9,745	\$9,940	\$10,215

As of January 1, 2009, the thresholds and ceilings will be automatically indexed each year.

See an example of disposable income for a couple with two children and two earned incomes on page 11.

### 2.2 Increase in the basic tax credit

The amount of recognized essential needs and the complementary amount forming the basic amount used to calculate the basic tax credit will be replaced, as of the 2008 taxation year, by a single amount of \$10,215.

The new basic amount of \$10,215 will be automatically indexed annually as of January 1, 2009.

<sup>1</sup> Except for trusts.

## **2.3 Clarifications concerning the application of certain fiscal measures**

### **2.3.1 Transfer of 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. It 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, i.e. \$6,650 (in 2007);
- where the eligible student has completed, in the year, only one recognized term, the amount remaining after subtracting, from the amount of recognized essential needs applicable for the year under the basic tax credit, an amount of \$1,860 for studies (in 2007).

## **3. MEASURES CONCERNING BUSINESSES**

### **3.1 Elimination of the tax on capital on January 1, 2011 and technical changes**

#### **3.1.1 Substantial reduction in the capital tax from now until its elimination**

The tax on capital will be reduced substantially from now until it is eliminated on January 1, 2011. More specifically, the rate of the tax on capital applicable to corporations that are not financial institutions will first be reduced from 0.49% to 0.36% as of January 1, 2008. It will then be reduced annually by 0.12 percentage points as of January 1, 2009. Accordingly, it will fall to 0.24% as of January 1, 2009 and to 0.12% as of January 1, 2010, before finally being completely eliminated on January 1, 2011.

As a corollary, the rate of the tax on capital applicable to financial institutions will first be reduced from 0.98% to 0.72% as of January 1, 2008. It will then be reduced annually by 0.24 percentage points as of January 1, 2009. Accordingly, it will fall to 0.48% as of January 1, 2009 and to 0.24% as of January 1, 2010, before finally being completely eliminated on January 1, 2011.

#### **3.1.2 Impact of the elimination of the tax on capital on the capital tax credit**

Any unused balance of the capital tax credit at the end of a taxation year including December 31, 2010 will be cancelled because of the elimination of the tax on capital.

### **3.2 *Withdrawal of the indexing in the determination of the refundable tax credit for processing activities in the resource regions***

The current terms and conditions stipulate that an eligible corporation may, regarding a calendar year, claim the refundable tax credit based on the increase in payroll attributable to its eligible employees, according to the following formula:

$$\text{Amount of the tax credit} = \text{Rate of tax credit} \times (A - B)$$

In this formula:

- the letter A represents the total wages paid by the corporation to its eligible employees for the calendar year;
- the letter B represents the total wages paid by the corporation to its eligible employees for its reference calendar year.

Since no correction regarding wage indexing is considered in the determination of the tax credit, an eligible corporation can thus receive tax assistance in a given calendar year without necessarily having created additional jobs during such calendar year.

Accordingly, to more directly link the purpose of the tax credit, namely job creation, with the obtaining of tax assistance, an annual indexing factor of 2% will be considered in establishing the tax credit beginning in calendar year 2008.

Thus, component A of the formula will be adjusted for calendar years 2008 and 2009. More specifically, all the wages paid by a corporation to its eligible employees for the calendar year of the tax credit calculation, i.e. the amount identified by the letter A in the formula, will be reduced by 2% for calendar year 2008 and by 4% for calendar year 2009.

For greater clarity, no such adjustment will be made to the refundable tax credit for Gaspésie and certain maritime regions of Quebec and the refundable tax credit for the Vallée de l'aluminium.

## **4. MEASURES ANNOUNCED ON FEBRUARY 20, 2007 THAT ARE CONFIRMED**

The May 24, 2007 Budget Speech confirms the following measures announced in the February 20 Budget Speech – see the Quebec Budget Summary of February 20, 2007 for more details.

### ***4.1 Improvement of the tax system pertaining to education***

#### **4.1.1 Introduction of a 10% refundable tax credit to support education savings**

- Changes to the rules of the tax credit for minor children engaged in vocational training or postsecondary studies
- Replacement of the tax credit for adult children who are students with a transfer mechanism for the recognized parental contribution
- Increase in the amount for persons living alone to \$1,465
- Transfer to the parents or grandparents of the unused portion of the tax credit for tuition fees and examination fees

#### **4.1.2 Enhancement of the tax credit for retirement income to \$1,500**

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

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

#### **4.1.5 Enhancement of the refundable tax credit for the treatment of infertility from 30% to 50%,**

### ***4.2 Measures concerning businesses***

#### **4.2.1 Extension of and improvement to the capital tax credit**

- Basic tax credit to 10%
- Extension of the higher 15% credit

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

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

**4.2.4 Measures concerning scientific research and experimental development**

- Change to the requirement to carry on a business in an establishment located in Quebec
- Recognition of an eligible public research centre (CSSS de Chicoutimi).

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

**4.2.6 Measures concerning culture**

- Adjustments to the refundable tax credit for Quebec film and television production
- Concordance changes regarding certain refundable tax credits relating to the cultural field
- Adjustments to the refundable tax credit for the production of shows and for sound recording production
- Adjustments to the refundable tax credit for book publishing

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

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

**4.3 *Measures concerning consumption taxes***

Increase in the maximum amount of the refund of Quebec sales tax paid on a hybrid vehicle.

**4.4 *Others measures***

Free medication for the most disadvantaged.

## 5. MEASURES RELATING TO THE MARCH 19, 2007 FEDERAL BUDGET

Quebec's tax legislation and regulations will be amended to incorporate some of the measures announced taking into account technical amendments that might be made prior to the approval of the law or the adoption of the regulation. These measures will apply as of the same dates as for the purposes of the federal tax system.

### 5.1 *Measures relating to the Income Tax Act*

#### 5.1.1 Measures retained

Incorporate, with adaptations based on their general principles, the measures relating to:

- the implementation of a registered disability savings plan;
- donations of publicly-listed securities to private foundations;
- the regime applicable to excess business holdings of private foundations;
- the elimination of the annual limit applicable to contributions paid under a registered education savings plan. The tax assistance for education savings will equal 10% of the first \$2,500 in annual contributions. The maximum lifetime tax credit granted for one child is \$3,600. The lifetime contribution limit has been set at \$50,000 instead of \$42,000;
- the recognition of certain part-time study programs for the purposes of an educational assistance payment by a registered education savings plan;
- the lifetime capital gains exemption on small business shares and farm or fishing property, which was increased from \$500,000 to \$750,000;
- meal expenses of trucker drivers;
- changes to annuity contracts purchased under a registered pension plan or deferred profit-sharing plan to reflect the deferral of the age limit for converting such plans, which was increased from 69 to 71;
- the determination of the minimum withdrawal amount under a registered retirement income fund;
- gifts by corporations of medicines to developing countries;
- the limitation on the deductibility of interest relating to active income from a foreign affiliate subject to the clarifications that were made;
- the updating of the concept of "prescribed stock exchange";
- the increase to \$1,800 of the income tax instalment threshold for individuals resident in Quebec, subject to the condition that such measure shall apply to any individual liable for Quebec tax;
- the increase to \$3,000 of the threshold as of which a corporation is required to pay instalments;
- the change in the frequency of instalments of Canadian-controlled private corporations (CCPC) from monthly to quarterly;
- the amendments pertaining to capital cost allowance applicable to certain assets;

- the increase to \$3,000 in the threshold amount for remitting payroll deductions and employer contributions by quarterly instalment.

### 5.1.2 Measures already announced by the federal Department of Finance

- *Tax returns in a functional currency*

The tax legislation will be amended to incorporate, with adaptations on the basis of its general principles, this measure that will apply on the same date as it will for the purposes of the federal tax system.

- *Splitting of certain retirement income between spouses*

It was announced that, for the purposes of Quebec's tax system, the retirement income splitting mechanism would apply only between persons who reside in Canada at the end of a given taxation year and who are eligible spouses, and that this mechanism would apply to an amount not exceeding 50% of all income giving rise, for the year, to the amount used to calculate the pension tax credit allowed under the federal tax system. It was specified that eligible spouses could, as a general rule, make a separate election from the one made for the purposes of the federal tax system.

- **Measures relating to splitting**

These measures will be adopted only after any federal law pursuant thereto is assented to, taking into account technical amendments that might be made prior to such assent. These measures will generally apply on the same dates as for the purposes of the federal tax system. Quebec's tax legislation will be amended to incorporate, with adaptations on the basis of its general principles, the federal measures relating to:

- the obligation, to make a joint election on a prescribed form
- the non-validity of a joint election where, knowingly or in circumstances equivalent to flagrant negligence, a false statement is made;
- the fact that the Minister of Revenue may not consider, for the purposes of exercising his discretion to reduce the amount of tax withheld at source otherwise determined regarding a payment, a joint election concerning retirement income splitting that an individual makes or intends to make;
- the presumption by which the amount of tax withheld on the income of the author of the splitting that can reasonably be considered to relate to the amount allocated to his spouse will apply against the tax payable by the latter and not against the tax payable by the author of the splitting.

To determine whether or not an individual is required to make instalment payments on his income tax payable for a given taxation year, the net tax payable by such individual for the year or for a year prior to such year must be determined without taking into account, first, the amount of allocated retirement income that has been deducted or included, as the case may be, in calculating his income for any of such years and, second, the presumption relating to withholdings on split income applicable to such a year.

In the case where an individual is required to make instalment payments on his income tax payable for a given taxation year, his estimated income tax or his base instalment for a year prior to such year must be established without taking into account, first, the amount of allocated retirement income that has been deducted or included, as the case may be, in calculating his income for the year concerned and, second, the presumption relating to withholdings on split income for such year.

○ **Measures relating to the pension tax credit**

A non-refundable tax credit that reduces with income applies to the first \$1,500 of eligible retirement income received by an individual and, if applicable, such income received by his spouse.

Quebec's tax legislation will be amended to incorporate, with adaptations on the basis of its general principles, the federal measures proposed by the bill tabled on March 29, 2007 and relating to the amounts received by an individual that are not eligible for the purposes of calculating the pension tax credit and to the presumption bearing on the eligibility, for the purposes of calculating the tax credit, of bridging benefits on account of a life annuity stipulated by a retirement or pension plan.

These measures will be adopted only after any federal law pursuant thereto is assented to and will apply on the same dates as for the purposes of the federal tax system.

• *Improvements to the taxation of financial institutions*

On March 19, 2007, when he tabled his 2007 budget, the federal Minister of Finance confirmed the federal government's intention to introduce these fiscal measures announced on December 28, 2006.

In this regard, Quebec's tax legislation and regulations will be amended to incorporate, with adaptations on the basis of their general principles, the measures included in these proposals.

**5.2 Measures relating to the Excise Tax Act**

Changes will be made to the Quebec sales tax system to incorporate, with adaptations based on its general principles, the federal measures relating to meal expenses of truck drivers, remittance and filing thresholds, exports of intangible personal property and exemption for midwifery services from the GST/HST.

Concerning the federal measures relating to the foreign convention and tour incentive program, the only measures retained will be those bearing on the filing of information on the amounts of tax refunds paid or credited by registered suppliers in a foreign convention context.

## 6. APPENDIX : EXAMPLE OF DISPOSABLE INCOME FOR A COUPLE WITH TWO CHILDREN AND TWO EARNED INCOMES

TABLE F.24

Disposable income, including the 2007-2008 Budget measures  
 Couple with two children and two earned incomes – 2008  
 (dollars)

Earned income	Québec government							Federal government				Contributions and premiums <sup>3</sup>	Disposable income	
	Social assistance	Child Assistance	Work Premium	Shelter allowance	QST credit	Property tax refund	Québec income tax	Québec sub-total	CCTB <sup>1</sup>	GST credit	Federal income tax <sup>2</sup>			Federal subtotal
0	10 284	3 199	—	960	350	109	—	14 903	6 437	740	—	7 177	—	22 080
5 000	8 978	3 199	350	960	350	109	—	13 946	6 437	740	—	7 177	-94	26 030
10 000	4 220	3 199	1 600	960	350	109	—	10 439	6 437	740	—	7 177	-336	27 280
15 000	—	3 199	2 850	960	350	109	—	7 469	6 437	740	—	7 177	-677	28 968
20 000	—	3 199	2 502	880	350	109	—	7 040	6 437	740	—	7 177	-1 019	33 198
25 000	—	3 199	2 032	—	350	109	—	5 690	5 586	740	—	6 326	-1 360	35 656
30 000	—	3 199	1 562	—	350	109	-426	4 794	4 437	740	-495	4 682	-1 701	37 775
35 000	—	3 199	1 082	—	256	15	-1 194	3 358	3 288	568	-1 064	2 791	-2 043	39 107
40 000	—	3 199	582	—	106	—	-1 994	1 893	2 533	318	-1 667	1 184	-2 384	40 692
45 000	—	3 199	82	—	—	—	-2 794	487	2 333	68	-2 270	131	-2 725	42 892
50 000	—	3 032	—	—	—	—	-3 594	-562	2 133	—	-2 873	-740	-3 067	45 631
55 000	—	2 832	—	—	—	—	-4 394	-1 562	1 933	—	-3 476	-1 543	-3 408	48 487
60 000	—	2 632	—	—	—	—	-5 194	-2 562	1 733	—	-4 079	-2 346	-3 749	51 343
65 000	—	2 432	—	—	—	—	-5 994	-3 562	1 533	—	-4 682	-3 149	-4 090	54 198
70 000	—	2 232	—	—	—	—	-6 794	-4 562	1 333	—	-5 285	-3 952	-4 432	57 054
75 000	—	2 032	—	—	—	—	-7 594	-5 562	1 133	—	-5 888	-4 755	-4 773	59 910
80 000	—	1 832	—	—	—	—	-8 514	-6 682	933	—	-6 716	-5 783	-5 114	62 420
85 000	—	1 632	—	—	—	—	-9 514	-7 882	733	—	-7 600	-6 867	-5 383	64 868
90 000	—	1 432	—	—	—	—	-10 514	-9 082	533	—	-8 500	-7 968	-5 522	67 428
95 000	—	1 232	—	—	—	—	-11 514	-10 282	333	—	-9 416	-9 083	-5 543	70 091
100 000	—	1 151	—	—	—	—	-12 514	-11 363	133	—	-10 332	-10 199	-5 564	72 874
125 000	—	1 151	—	—	—	—	-17 514	-16 363	—	—	-14 915	-14 915	-5 639	88 084

Notes: Figures have been rounded off, so the total may not correspond to the total indicated.

Each spouse earns 50% of the earned income.

1 Canada Child Tax Benefit and National Child Benefit supplement.

2 After abatement. Includes the Child Tax Credit but not the Working Income Tax Benefit, the parameters of which have not yet been determined for Québec.

3 Includes Québec Pension Plan contributions, employment insurance premiums and contributions to the Québec parental insurance plan.

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

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