TAX HIGHLIGHTS FROM THE 2019 QUEBEC BUDGET

Finance Minister Eric Girard tabled the 2019 Quebec provincial budget on March 21, 2019. The government projects a balanced budget for the fiscal year 2019–2020 and the subsequent four years, and this will be achieved without using the stabilization reserve.

In 2019–2020, consolidated revenue is expected to be $115.6 billion, a growth of 3.2% year-over-year, while consolidated expenditures will amount to $113.0 billion, also growing 3.2% over the previous fiscal year. In addition, deposits of dedicated revenue in the Generations Fund amount to $2.5 billion in 2019–2020 and will reach $2.7 billion in 2020–2021.

By spring 2019, $10 billion from the Generations Fund will have been used to reduce Quebec's debt on financial markets. The debt repayment will lower the government's interest charges by $1.6 billion over the next five years.

On the income tax side, there were no increases or decreases to personal or corporate income tax rates for 2019.

The following pages are a summary of the changes announced in the budget. Please note that these changes are still proposals until passed into law by the provincial government.

PERSONAL TAX MATTERS

Personal income tax rates and tax brackets

The 2019 budget leaves personal income tax rates unchanged from 2018. Tax brackets and other amounts have been indexed by 1.7% to recognize the impact of inflation. The table below shows Quebec tax rates and brackets for 2019.

Taxable income range	2019 tax rates
First $43,790	15.00%
$43,791 – $87,575	20.00%
$87,576 – $106,555	24.00%
$106,556 and over	25.75%

The table below shows the 2019 combined federal and provincial highest marginal tax rates for various types of income.

Type of income	2019 combined tax rates
Regular income	53.31%
Capital gains	26.65%
Eligible dividends	40.00%
Non-eligible dividends	46.25%

Tax credits for career extension

To encourage more experienced workers to remain longer in or to re-enter the labour market, the tax credit for experienced workers will be renamed the tax credit for career extension and changes will also be made to the credit as of the 2019 taxation year.

The age of eligibility for the tax credit will be lowered to 60 (currently 61). For workers aged 60 to 64, the maximum amount of eligible work income on which the tax credit is calculated will be $10,000 (currently $3,000 to $9,000 for workers aged 61 to 64). For workers 65 or over, the maximum amount of eligible work income on which the tax credit is calculated has not changed and will remain at $11,000.

Gradual elimination of the additional contribution for childcare

Currently, the additional contribution for subsidized childcare payable when parents file their income tax return is $0.70 to $13.90 par day based on family income.

Starting in 2019, the additional contribution will be reduced. In 2022, no family will have to pay the additional contribution.

CORPORATE TAX MATTERS

Corporate income tax rates

There were no changes proposed to corporate income tax rates. The table below shows Quebec tax rates and the small business limit for 2019.

Category	2019 tax rates
General rate	11.6%
Manufacturing and processing rate	11.6%
Investment income rate	11.6%
Small business rate	6.0%
Small business without 5,500 hours	11.6%
Small business limit	$500,000

The table below shows the 2019 combined federal and provincial corporate income tax rates for various types of income earned by a Canadian-controlled private corporation (CCPC).

Type of income	2019 combined tax rates
Small business income	15.0%
Small business without 5,500 hours	20.6%
Active income over $500,000	26.6%
Manufacturing and processing income	26.6%
Investment income	50.3%

Refundable tax credit to foster the retention of experienced workers

To encourage small and medium-sized businesses (SMBs) to hire or retain workers aged 60 or over, the refundable tax credit to foster the retention of experienced workers will be granted to qualified corporations that employ individuals 60 or over.

Thus, in respect of an employee aged at least 60 but no older than 64, the tax credit that can be claimed by a qualified corporation with a total payroll of $1 million or less, on the employer contributions paid in respect of such an employee, will be calculated at a rate of 50% and can be as much as $1,250 annually.

In respect of an employee aged at least 65, the tax credit that a qualified corporation can claim on the employer contributions paid in respect of such an employee will be calculated at a rate of 75% and can total as much as $1,875 annually.

A qualified corporation that is a member of a qualified partnership can also claim this refundable tax credit calculated on its share of the employer contributions paid by the qualified partnership in respect of an eligible or specified employee.

In general, a qualified corporation means a corporation that has an establishment in Quebec and carries on a business there, whose paid-up capital, for the year, is less than $15 million and whose total remunerated hours, for the year, exceed 5,000 (except for the primary and manufacturing sectors).

These amendments will be applicable in respect of a taxation year that ends after December 31, 2018.

Reduction of the capital investment threshold applicable to a large investment project in a designated region

As part of the Budget Speech 2013-2014, a tax holiday for large investment projects was announced. To further stimulate the carrying out of large investment projects in designated regions, the 2019 budget proposes to reduce the capital investment threshold that is applicable to them from $75 million to $50 million.

This change will apply to investment projects for which an application for an initial qualification certificate is filed after March 21, 2019. It may also apply to investment projects in respect of which a corporation or partnership has already applied for an initial qualification certificate on or before March 21, 2019 but which begin to be carried out after this date.

OTHER PROPOSALS

Tax on lodging – digital platforms

To take into account the growing presence of digital platforms and to ensure greater fairness among the various stakeholders in the tourism industry, the Quebec government is announcing further changes will be made to the tax on lodging system.

- A person operating a digital accommodation platform will be required to register with Revenu Québec for the purposes of collecting and remitting the tax on lodging.

- A person registered will be required, in respect of any accommodation unit covered by the system rented in a sleeping-accommodation establishment located in a participating region, to collect or pre-collect the 3.5% tax on the price of every overnight stay, render an account of it and remit it in accordance with the existing terms and conditions under the tax on lodging system, where such a unit is supplied through the person's digital accommodation platform.

These changes will apply from the first day of the first calendar quarter beginning at least 180 days after the date on which the bill implementing these measures becomes law.

Sustainable development certification allowance in the Mining Tax Act

To encourage mining operators in their efforts to apply best environmental, social and economic practices, a sustainable development certification allowance will be introduced in the mining tax regime.

These changes will apply to a fiscal year of an operator that ends after March 21, 2019 in respect of sustainable development certification expenses incurred after that day.

Changes to certain measures respecting tips

To take into account the new indemnities provided for in the *Act Respecting Labour Standards*, the tax legislation will be amended to provide that the eligible expenses for the refundable tax credit for reporting of tips will include the portion of the indemnities for days of leave to fulfill family obligations or days of leave for health reasons that is attributable to tips and that was paid in the taxation year or fiscal period, as applicable. These amendments will apply to indemnities for days of leave to fulfill family obligations or for days of leave for health reasons paid after December 31, 2018.

An amendment will be made to the *Tax Administration Act* so that the special penalty for attribution of tips is calculated on the amounts payable or remittable under a tax law, and not based on the amount of the tips not attributed. The Act will also be amended to provide that a person cannot incur both the penalty for false statements or omissions and the penalty related to the attribution of tips for the same omission. These amendments will apply in respect of a penalty imposed after March 21, 2019.

Changes to certain terms and conditions of application of the Fonds de solidarité FTQ's investment requirement

Budget 2019 proposes to amend the statute of incorporation of the Fonds de solidarité FTQ to merge the ceiling on strategic investments and the ceiling on investments in major projects that have a structuring effect on Quebec's economy. This amendment will apply to any fiscal year of the Fonds de solidarité FTQ beginning after May 31, 2019.

Harmonization

The Quebec tax legislation will be amended to incorporate the amendments announced by the Department of Finance Canada on November 21, 2018 in respect of the accelerated deduction granted in respect of Canadian development expenses and Canadian oil and gas property expenses, for the year in which the expenses are incurred, as well as the extension of the Mineral Exploration Tax Credit for five years.

Except where it allows a corporation to deduct the total amount of its cumulative Canadian development expenses or its cumulative Canadian development expenses incurred in Quebec, the Quebec tax legislation will be amended, with adaptations on the basis of its general principles, to incorporate the proposed amendments to the *Income Tax Act (Canada)* allowing a taxpayer to deduct, in calculating the taxpayer's income, for the year in which the expenses are incurred, up to one-and-a-half times the amount the taxpayer would otherwise have been able to deduct in respect to the taxpayer's Canadian development expenses and Canadian oil and gas property expenses, where the taxation year ends before 2024, with a gradual reduction thereafter.

However, the amendments to the Quebec tax legislation will be adopted only following the assent to any federal statute implementing the legislative proposals retained, which will take into account any technical amendments that may be made prior to assent. These amendments will be applicable on the same dates as those retained for application of the amendments to the federal tax legislation with which they are harmonized.

The measure respecting the extension of the Mineral Exploration Tax Credit will not be retained because the Quebec tax system does not contain any analogous provision.

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