QUEBEC BUDGET

HIGHLIGHTS FROM THE QUEBEC BUDGET

Minister of Finance Eric Girard tabled the 2023/24 Quebec provincial budget on March 21, 2023.

The budget projects a deficit of $4.0 billion for the upcoming 2023/24 fiscal year, and then decreasing by $1.0 billion per year until fiscal balance is achieved in 2027/28. The forecast deficit for the almost completed 2022/23 fiscal year now stands at $5.0 billion, $1.5 billion below the projected deficit of $6.5 billion.

On the income tax side, the budget decreases the personal income tax rate by 1% for the first two tax brackets. The budget also includes changes to the conversion rate for calculating personal tax credits, an introduction of a new tax holiday relating to the implementation of large investment projects, and a reduction in Quebec Pension Plan contributions for workers aged 65 or older. The following pages are a summary of the changes announced in the budget. Please note that these changes are proposals until they are passed into law by the government.

PERSONAL TAX MATTERS

Personal income tax rates and tax brackets

Effective January 1, 2023, the budget will decrease the personal income tax rate by 1% for the first two tax brackets. Tax brackets and other amounts have been indexed by 6.44% to recognize the impact of inflation. The table below shows the Quebec tax rates and tax brackets for 2023.

TAXABLE INCOME RANGE	2023 TAX RATES
First $49,275	14%
Over $49,275 to $98,540	19%
Over $98,540 to $119,910	24%
Over $119,910	25.75%

The table below shows the 2023 combined federal and provincial highest marginal tax rates for various types of income.

INCOME TYPE	2023 COMBINED TAX RATES
Regular income	53.31%
Capital gains	26.65%
Eligible dividends	40.11%
Non-eligible dividends	48.7%

Changes to personal tax credits (decrease in the conversion rate)

As a result of the decrease in personal income tax rates for the first two tax brackets, the tax legislation and regulations will also be amended so that the conversion rate applicable for calculating personal tax credits will be reduced from 15% to 14%. This is to correspond with the new rate applicable to the first tax bracket effective January 1, 2023.

Furthermore, the tax legislation will be amended to include an increase in the amounts granted for the purpose of calculating certain personal tax credits so that there will be no impact from the decrease in the conversion rate. These credits include the amount for a child under 18 enrolled in vocational training or post-secondary studies, the amount for other dependants, and the transferred amount representing the recognized parental contribution.

The tax regulations will also be amended to lower the required income tax source deductions to reflect the decrease in personal income tax rates for the first two tax brackets with respect to various payments made or remuneration paid after June 30, 2023.

Effective January 1, 2023, the flat tax rate for the purpose of calculating alternative minimum tax will be reduced to 14% so it continues to be the rate applicable to the first tax bracket.

Enhancement of the housing component of the refundable solidarity tax credit

In order to help support low-income and middle-income households cope with the increase in their rent, the indexation normally provided for the housing component of the solidarity tax credit will be doubled and applied as of the next payment period, which begins on July 1, 2023. Accordingly, the amounts of the housing component of the solidarity tax credit applicable for the period from July 2022 to June 2023 will be indexed at a rate of 12.88% (instead of 6.44%) for the payment period beginning July 1, 2023.

Enhancement of the non-refundable tax credits for volunteer firefighters and search-and-rescue volunteers

For the 2023 taxation year, the $3,000 amount used to determine these tax credits will be increased to $5,000. In addition, to ensure that the increase in these non-refundable tax credits takes inflationary factors into consideration, the tax legislation will be amended to provide that the $5,000 amount will be automatically indexed each year as of the 2024 taxation year.

CORPORATE TAX MATTERS

Corporate income tax rates

The budget contained no proposed changes to corporate income tax rates. The table below shows the Quebec tax rates and small business limit for 2023.

CATEGORY	2023 TAX RATES
General rate	11.5%
Manufacturing and processing rate	11.5%
Investment income rate	11.5%
Small business rate	3.2%
Small business without 5,500 hours	11.5%
Small business limit	$500,000

The table below shows the 2023 combined federal and provincial corporate income tax rates for various types of income earned by a Canadian Controlled Private Corporation (CCPC).

INCOME TYPE	2023 COMBINED TAX RATES
Small business income	12.2%
Small business without 5,500 hours	20.5%
Active income over $500,000	26.5%
Manufacturing and processing income	26.5%
Investment income	50.17%

Introduction of a new tax holiday relating to the implementation of a large investment project

Effective March 22, 2023, a corporation or partnership that carries out a large investment project in Quebec may, under certain conditions, benefit from an income tax holiday and a holiday from the employer contribution to the health services fund (HSF). This new tax holiday will have a 10-year duration. It will be calculated by applying a rate of 15%, 20% or 25% to the cumulative total eligible expenditures related to the project. This rate will be determined according to the economic vitality index of the territory where the large investment project will be carried out, subject to certain rules applicable if a large investment project is carried out in more than one territory.

- If the large investment project is carried out in a territory with low economic vitality, the rate is 25%.
- If the large investment project is carried out in a territory with intermediate economic vitality, the rate is 20%.
- If the large investment project is carried out in a territory with high economic vitality, the rate is 15%.

In addition, the project will have to satisfy a requirement to meet the $100-million investment threshold before the expiration of a 48-month investment period, and the cumulative total eligible expenditures relating to the project may not exceed $1 billion.

Changes to the refundable tax credit for Quebec film or television production

The Act respecting the sectoral parameters of certain fiscal measures (hereinafter the "Sectoral Act") will be amended to recognize the contribution of certain market intermediaries in the online distribution of certain productions. These changes are being made to ease the current rules to facilitate the acquisition of stock footage, to provide greater support for Quebec film and television productions, and to better reflect the current state of the industry.

Specifically, the Sectoral Act will be amended to provide that, for a film whose primary market is the online broadcasting market, there must be, in the case of an eligible online video service by a provider other than a broadcaster, an undertaking by a holder of a general distributor's licence to exploit the film in Quebec and an undertaking by the provider or the aggregator to that holder to make the film accessible in Quebec through the eligible online video service.

Enhancement of the refundable tax credit for book publishing

The tax legislation will be amended so that the 50% limit on qualified labour expenditure attributable to preparation costs and digital version publishing costs will be raised to 65%.

The tax legislation will also be amended so that the rate of the refundable tax credit for book publishing will be increased from 27% to 35% with respect to qualified labour expenditure attributable to printing and reprinting costs.

Enhancement of the refundable tax credit for the production of multimedia events or environments presented outside Quebec

Corporations producing multimedia events or environments presented outside Quebec are facing strong competition in foreign markets as well as a significant increase in their labour expenses. As a result, the 50% limit on qualified labour expenditures attributable to the production of a qualified project will be increased to 60% to provide greater support to corporations producing multimedia events or environments, and to better reflect the current state of the industry.

OTHER INITIATIVES

Increase in the specific duty on new tires for road vehicles

The specific duty on new tires for road vehicles, as it is currently applied, will be increased to ensure the sustainability of the Quebec Integrated Used Tire Management Program and to eliminate the inequity between the cost of processing car and truck tires. The changes are as follows:

- $4.50 for new tires for road vehicles for which the diameter of the rim is less than or equal to 62.23 cm (24.5 inches) and the overall diameter is less than or equal to 83.82 cm (33 inches)
- $6.00 for new tires for road vehicles for which the diameter of the rim is less than or equal to 62.23 cm (24.5 inches) and the overall diameter is greater than 83.82 cm (33 inches) but does not exceed 123.19 cm (48.5 inches)

Implementation of the new program for managing the tax exemption of First Nations

The budget provides funding, over a five-year period, for the implementation of a computer system under the new program for managing the tax exemption of First Nations. This program, which will be phased in as of July 1, 2023, will allow persons with Indian status to benefit from the exemption, to which they are entitled with respect to the tax on alcoholic beverages, directly at the time of purchase.

Reduction in Quebec Pension Plan (QPP) contributions for workers aged 65 or older

In order to encourage the retention of experienced workers in Quebec and to offer them more financial flexibility, the Act respecting the Quebec Pension Plan will be amended to introduce an option allowing workers aged 65 or older to stop paying QPP contributions, provided they are also receiving a QPP or CPP retirement pension as of January 1, 2024.

Effective January 1, 2024, the Act will also be amended so that the obligation to contribute to the QPP will cease for workers over 72 years of age. More specifically, the obligation to contribute to the QPP for a worker will cease the year in which the worker turns 73. Consequently, all wages paid and earnings received as of January 1st of the year in which a worker reaches age 73 will no longer be subject to QPP contributions.

Strengthening tax compliance regarding crypto assets

Amendments will be made to the tax legislation and regulations to give the Minister of Revenue the power to ask taxpayers whether they own or have used virtual assets to carry out certain transactions during a taxation year or a fiscal year, as the case may be, and to request, where applicable, the details of these transactions.

Changes to the intervention framework for tax-advantaged funds

Amendments will be made to the constituting act of the tax advantaged funds as well as to the tax legislation to optimize the economic spin-offs resulting from the interventions of these tax-advantaged funds (the Fonds de solidarité des travailleurs du Quebec, the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi and Capital régional et coopératif Desjardins), to limit the tax expenditure associated with them, to ensure a better match between the investment horizon of the labour-sponsored funds and the minimum holding period of the shares entitling them to the non-refundable tax credit, and to enable a greater number of individuals to become shareholders of these funds. These changes will:

- simplify the investment requirement applicable to the three tax-advantaged funds by reorganizing the investment categories provided for in each of the constituting acts
- clarify the mission of the three tax-advantaged funds by updating and enhancing the functions currently set out in each of the constituting acts, in particular to introduce the concept of savings
- maximize the economic impact of labour-sponsored funds' investments by increasing the minimum holding period for shares in labour-sponsored funds
- refocus tax assistance on taxpayers with greater savings needs by introducing a rule limiting access to the non-refundable tax credit for a labour-sponsored fund

WE CAN HELP

Your Assante advisor can help you assess the impact of these proposals on your personal finances or business affairs and show you ways to take advantage of their benefits or ease their impact. The resources available to you and your advisor include CI Assante Private Client's Wealth Planning Group, a multi-disciplinary team of accountants, lawyers and financial planners.

For more information, we encourage you to speak to your advisor or visit us at assante.com

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