



## Quebec Budget Summary 2020

# QUEBEC BUDGET HIGHLIGHTS

On March 10, 2020, Québec Finance Minister Eric Girard tabled his 2020-2021 budget plan which seeks to enable the government to continue its efforts to increase the potential of the economy and create more wealth for all Quebecers by taking action on several fronts.

Below are highlights of the 2020-2021 budget:

## A. Corporate Tax Measures

### INTRODUCTION OF TAX CREDIT FOR INVESTMENTS AND INNOVATION

The tax credit for investments and innovation (C3i) will be granted to a qualified corporation that acquires, after March 10, 2020 and before 2025, manufacturing or processing equipment, computer equipment or certain management software packages.

The tax credit rate will be 10 percent, 15 percent or 20 percent. It will be determined according to the location and the economic vitality index of the area where the investments are made.

The C3i will be fully refundable for small- to mid-sized businesses (SMBs) and non-refundable for large businesses. In certain situations, the C3i will be partially refundable. The non-refundable portion of the tax credit of a taxation year may then be carried over to another taxation year.

Eligible expenses for property will be those exceeding \$12,500 for the acquisition of manufacturing and processing equipment. The threshold will be set at \$5,000 for computer hardware and management software packages.

The C3i will replace the tax credit for investments. A corporation may nevertheless, under certain conditions, elect to receive the tax credit for investments according to its current terms and conditions.

Eligible corporations	Corporations carrying on business in Québec and have an establishment in Québec, except excluded companies <sup>(1)</sup>
Specified property	Manufacturing and processing equipment (classes 43 or 53); computer hardware (class 50); management software packages (part of class 12)
Rate of tax credit	10 percent in Montréal and Québec metropolitan communities 15 percent outside these metropolitan communities 20 percent in territories where economic vitality index is among lowest 25 percent in Québec
Application date	Applicable in respect of specified property acquired after March 10, 2020, but before January 1, 2025

(1) The following corporations will not be eligible for the C3i: a corporation exempt from tax, a Crown corporation or a wholly-controlled subsidiary of such a corporation, an aluminum-producing corporation and an oil-refining corporation

## **EXTENDING ELIGIBILITY PERIOD FOR THE TAX HOLIDAY FOR LARGE INVESTMENT PROJECTS**

The tax holiday for large investment projects allows eligible businesses to receive a tax holiday on their income and on their contribution to the Health Services Fund (HSF); the tax holiday is equivalent to a maximum of 15 percent of their investments, spread over a maximum period of 15 years.

To qualify for the measure, an investment project must, among other things, consist of at least \$100 million if it is carried out in a central region and at least \$50 million if it is carried out in a designated region. Businesses which want to benefit from the tax holiday for large investment projects currently have until December 31, 2020 to apply for an initial certification.

In Budget 2020-2021, the government is announcing the extension of the eligibility period for the tax holiday for large investment projects until December 31, 2024.

## **INTRODUCTION OF INCENTIVE DEDUCTION FOR COMMERCIALIZATION OF INNOVATIONS**

To be eligible for the incentive deduction for the commercialization of innovations (IDCI), a business must have an establishment in Québec, commercialize intellectual property (IP) there and have incurred research and development (R&D) expenses in Québec.

The qualified IP will mean a legally protected incorporeal property that is:

- an invention protected by:
  - a patent or a certificate of supplementary protection
  - plant breeder's rights
- software protected by copyright.

Also, to qualify as a qualified intellectual property asset, the property must result from R&D activities carried out in whole or in part in Québec.

Revenues from the commercialization of such IP, including revenues from the sale or rental of goods, services and royalties, will be eligible for the IDCI. These revenues will be taxed at an effective rate of 2.0 percent, a reduction of 9.5 percentage points compared to the general rate.

In addition, to facilitate application of the IDCI, a simplified calculation method will be offered, which will encourage its uptake, particularly by SMBs. Moreover, as of January 1, 2021, the IDCI will replace the deduction for innovative corporations (DIC), which has been in force since January 1, 2017. Businesses currently eligible for the DIC will be eligible for the IDCI.

This new deduction will apply in respect of a taxation year of a corporation beginning after December 31, 2020.

## **ELIMINATION OF EXCLUSION THRESHOLD FOR R&D TAX CREDITS FOSTERING COLLABORATION WITH RESEARCH ENTITIES**

Under the expenditure exclusion threshold, no tax assistance is granted for a taxpayer's or partnership's otherwise qualified R&D expenditures that are below a threshold applicable to the taxpayer or partnership for a taxation year. This threshold corresponds to an amount of \$50,000 that increases linearly to \$225,000 where the assets of the taxpayer or partnership, as applicable, vary between \$50 million and \$75 million.

The tax legislation will be amended to eliminate the exclusion threshold for qualified expenditures relating to a university research contract, an eligible research contract entered into with an eligible public research centre, a pre-competitive research project carried out in private partnership, or fees or dues paid to an eligible research consortium.

The elimination of the expenditure exclusion threshold will not apply to the "R&D salary" refundable tax credit. However, for the purposes of calculating that tax credit, the rule

providing for the splitting of the exclusion threshold among the various R&D tax credits will continue to apply as if the definition of reducible expenditures still applied to the other refundable R&D tax credits.

These changes will apply to expenditures incurred by a taxpayer or partnership for a taxation year or fiscal period, as applicable, that begins after March 10, 2020 relating to R&D work carried out after that day.

### **INTRODUCTION OF SYNERGY TAX CREDIT**

Businesses that invest in an eligible SMB will be able to claim a non-refundable tax credit equivalent to 30 percent of the value of their investment in eligible shares and can be, for a corporation, up to \$225,000 annually. Eligible investments will therefore be limited to \$750,000 per investor per year.

Eligible SMBs will be defined as Canadian-controlled private corporations with a permanent establishment in Québec, with paid-up capital of less than \$15 million and gross income of less than \$10 million and corporations operating in an eligible sector for at least one year.

Eligible sectors will be those working in green technologies, information technologies, life sciences, the innovative manufacturing sector and artificial intelligence.

Eligible investors will be defined as business corporations with an establishment in Québec and dealing at arm's length with an eligible SMB and corporations not primarily engaged in financing or investing in businesses.

Eligible investments will be those in capital stock, limited to:

- equity participation that does not result in control of an eligible SMB;
- \$750,000 per year per investor;
- \$1 million per year per eligible SMB.

Obtaining this tax credit requires a minimum holding period of five years.

Investissement Québec will be able to issue authorized placement certificates for an amount not exceeding \$30 million annually.

The synergy capital tax credit will apply in respect of a share subscription carried out after December 31, 2020.

### **INTRODUCTION OF REFUNDABLE TAX CREDIT FOR SMBs FOR PERSONS WITH SEVERELY LIMITED CAPACITY FOR EMPLOYMENT**

This refundable tax credit will be granted to qualified corporations that employ individuals with a severely limited capacity for employment. The refundable tax credit will be equal to the amount of the employer contributions paid by the corporation in respect of such an employee.

A qualified corporation that is a member of a qualified partnership can also claim this refundable tax credit in respect of its share of the employer contributions paid by the partnership regarding an employee with a severely limited capacity for employment.

The following table presents the main parameters of the measure.

**Main parameters of the reduction of payroll taxes to foster the retention of experienced workers**

Eligible employers	Corporations that meet the main eligibility criteria for the small business deduction <sup>(1)</sup>
Eligible employees	Employees for whom the corporation received an attestation certifying that the person received benefits under the Social Solidarity Program as a result of a severely limited capacity for employment during the year in question or one of the five preceding years; or, Employees with a severe and prolonged impairment in mental or physical functions <sup>(2)</sup>
Eligible payroll taxes	Québec payroll contributions <sup>(3)</sup>
Reduction in payroll taxes	100 percent of Québec payroll contributions regarding wages paid to eligible employees

(1) Canadian-controlled private corporation with paid-up capital of less than \$15 million.

(2) As defined for the purposes of the tax credit for a severe and prolonged impairment in mental or physical functions.

(3) Contributions to the Health Services Fund, the Québec Pension Plan, the Québec Parental Insurance Plan and the Commission des normes, de l'équité, de la santé et de la sécurité du travail

**CHANGES TO REFUNDABLE TAX CREDIT FOR QUEBEC FILM OR TELEVISION PRODUCTION**

**Change to the definition of a film adapted from a foreign format**

A film, including a television program, that is not developed from a foreign format benefits from a higher base rate than a film adapted from a foreign format.

So that the tax assistance provided by means of the tax credit will continue to prioritize original Québec productions, the *Act respecting the sectoral parameters of certain fiscal measures* (hereinafter, the "sectoral act") will be amended so that the conditions defining a film adapted from a foreign format in the case of a film whose primary market is the television market also apply to a film whose primary market is the online broadcasting market.

This change will apply to a film or television production for which an application for an advance ruling, or an application for a qualification certificate if no application for an advance ruling was previously filed for the production, is filed with the Société de développement des entreprises culturelles (SODEC) after March 10, 2020.

**Change to the requirements for application of the higher rate for a French-language film**

The refundable tax credit for Québec film or television production includes several base rates.

To further encourage French-language film productions, the sectoral act will be amended so that, like films whose primary market is television broadcasting, certain French-language films whose primary market is online broadcasting will benefit from the higher base rate for French-language film productions.

This change will apply to a film or television production for which an application for an advance ruling, or an application for a qualification certificate if no application for an advance ruling was previously filed for the production, is filed with SODEC after March 10, 2020.

## **INCREASE IN REFUNDABLE TAX CREDIT FOR SOUND RECORDINGS**

To further encourage the growth of this rapidly changing industry, the tax legislation will be amended to raise the limit on labour expenditures eligible for the refundable tax credit for sound recordings to 65 percent of the production costs of a qualified property.

This amendment will apply in respect of a qualified property for which an application for an advance ruling, or an application for a qualification certificate if no application for an advance ruling was previously filed, is filed with SODEC after March 10, 2020.

## **INCREASE IN REFUNDABLE TAX CREDIT FOR PRODUCTION OF PERFORMANCES**

To further support the creation of performances and better reflect the reality of the industry, the tax legislation will be amended to raise the limit of the qualified labour expenditures for the refundable tax credit for the production of performances to 65 percent of the production costs of the performance.

The maximum amounts of the tax credit in respect of a qualified performance, whether it is a musical comedy, a comedy show or any other show, remain unchanged.

This change will apply in respect of a performance whose first eligibility period ends after March 10, 2020 and for which an application for an advance ruling, or an application for a qualification certificate if no application for an advance ruling was previously filed for that period, is filed with SODEC after March 10, 2020.

## **CHANGE TO NOTION OF INTERACTIVITY FOR PURPOSES OF REFUNDABLE TAX CREDITS FOR MULTIMEDIA TITLES**

For a multimedia title to be an eligible multimedia title for the purposes of the tax credit – general component or the tax credit – specialized component, it must be published on an electronic medium and controlled by software allowing interactivity.

However, a multimedia title may have different levels of interactivity. To specify the level of interactivity required for a multimedia title to be recognized by Investissement Québec as an eligible multimedia title for the purposes of both the tax credit – general component and the tax credit – specialized component, an amendment will be made to the *Act respecting the sectoral parameters of certain fiscal measures*.

A title may thus be considered to be controlled by software allowing interactivity if the conditions respecting the user's participation in the action of the title are met for all or substantially all of the action.

This amendment will apply, in respect of both the tax credit – general component and the tax credit – specialized component, to an application for a certificate filed with Investissement Québec after March 10, 2020 for a taxation year beginning after that day.

## **CHANGE IN ACTIVITIES ELIGIBLE FOR TAX CREDITS FOR DEVELOPMENT OF E-BUSINESS**

The tax legislation will be amended so that an activity involving the design or development of ecommerce solutions allowing a monetary transaction between the person on behalf of whom the design or development is carried out and that person's customers (for example design and development of websites) will no longer be an eligible activity for the purposes of the Tax assistance for the development of e-business (TCEB).

However, such an activity involving the design or development of e-commerce solutions may be an eligible activity if it is incidental to an eligible activity relating to the development or integration of information systems or of technology infrastructures.

This change will apply to a taxation year of a corporation beginning after March 10, 2020.

## B. Personal Tax Measures

### INTRODUCTION OF REFUNDABLE TAX CREDIT FOR CAREGIVERS

In 2020, the four existing components of the tax credit for informal caregivers of adults will be replaced by the new refundable tax credit, called the “tax credit for caregivers,” comprising the following two components:

- Component 1: universal basic tax assistance of \$1,250 (in the case of co-residency) and reducible assistance of \$1,250 (no co-residency requirement) for a caregiver providing care to a person aged 18 or older who has a severe and prolonged impairment and needs assistance in carrying out a basic activity of daily living;
- Component 2: universal tax assistance of \$1,250 for a caregiver who supports and co-resides with a relative aged 70 or older.

For the purposes of both Component 1 and Component 2 of the new tax credit, a caregiver will be entitled to a non-reducible universal amount of \$1,250 where the caregiver co-resides in the same self-contained domestic establishment as the eligible care-receiver, provided the caregiver meets the other criteria giving rise to the tax credit.

Under Component 1 of the new tax credit, the caregiver of an eligible care-receiver aged 18 or older who has a severe and prolonged impairment in mental or physical functions and who, according to certification by a health professional, needs assistance in carrying out a basic activity of daily living, will receive additional assistance of up to \$1,250 for the year, thereby raising the potential assistance under Component 1 to \$2,500 if the caregiver co-resides with the eligible care-receiver.

However, if the caregiver does not co-reside with the eligible care-receiver, the only assistance to which the caregiver is entitled will be a reducible amount of up to \$1,250 under Component 1 of the tax credit. The \$1,250 amount will be reduced in the same way as is done currently, according to a rate of 16 percent for each dollar of the eligible care-receiver's income that exceeds the reduction threshold applicable for the year. For 2020, the reduction threshold is \$22,180.

The new refundable tax credit for caregivers comprising two new components replaces the four components of the tax credit for informal caregivers of adults as of January 1, 2020.

### SIMPLIFICATION OF PAYMENT OF REFUNDABLE TAX CREDIT FOR SOLIDARITY TO THE SURVIVING SPOUSE

The solidarity tax credit consists of tax assistance to offset the regressive nature of certain taxes for low and middle-income households. The tax credit is granted on a family basis and is paid to only one of the spouses.

Currently, the surviving spouse can receive the payments to which the deceased spouse would have been entitled on behalf of the household for the remainder of the year. However, the surviving spouse must claim the tax credit by completing Schedule D of the income tax return again and filing it with Revenu Québec.

To reduce the administrative burden following a death and enable the surviving spouse to quickly receive the amounts to which he or she is entitled, the solidarity tax credit will henceforth be paid automatically to the surviving spouse as soon as Revenu Québec is informed of the other spouse's death.

Automatic payment will apply in respect of deaths that occur on or after July 1, 2020.

## C. Other Measures

### NEW INITIATIVES TO ENSURE TAX FAIRNESS

#### 1. Strengthening corporate transparency

To continue its efforts to strengthen corporate transparency, the government will:

- require businesses to declare information on beneficial owners to the Registraire des entreprises du Québec (REQ);
- make it possible to do searches in the enterprise register using the name of an individual;
- prohibit the issue of subscription warrants or stock options in bearer form

The government will optimize corporate transparency while protecting privacy and personal information. Legislative amendments will be required for this purpose.

#### 2. Stepping up actions to fight tax evasion and tax avoidance

To optimize its initiatives, the government is prioritizing action in sectors deemed to be more at risk.

##### ***Tightening regulations in the personnel placement agency sector***

The government provides that personnel placement agencies that hold this licence will be required to have a valid Attestation de Revenu Québec at all times. This will enable businesses to regularize their tax obligations with Revenu Québec.

##### ***Granting more powers to inspectors in the remunerated passenger transportation sector***

Once the provisions pertaining to sales recording systems come into effect, a bill will have to be remitted to the customers of any person or business offering remunerated passenger transportation services, whether through traditional taxis or new digital platforms. Sales recording systems will make it easier for operators to compile sales.

Consideration is being given to implementing these measures gradually as of summer 2020.

##### ***Other measures***

- The government will identify targeted measures in the residential renovation sector to simplify tax compliance.
- The funding granted to the Régie du bâtiment du Québec will be increased to step up criminal history checks on the guarantors, directors and shareholders of construction companies.
- The government is increasing efforts to combat tobacco smuggling.
- The government is adapting inspection and investigation methods for alcoholic beverages.
- The government will increase interventions in the financial sector and the new economy, particularly by the followings actions:
  - increasing the number of inspections of money-services businesses;
  - continuing to develop expertise in the cryptocurrency sector;
  - enabling suppliers that are active on collaborative economy platforms to comply more effectively with their tax obligations.



### **3. Combatting fraud against the government more effectively**

The government is providing increased funding for the Sûreté du Québec in order to:

- step up the fight against crimes committed using digital media by improving the information detection and collection process;
- accelerate computer analyses conducted as part of investigations.

### **STANDARDIZING FEES FOR CHILDCARE SERVICES AT SCHOOL**

Currently, the fees charged to parents for childcare services at school vary from one institution to another and according to the regions. As of 2020-2021, fees for childcare services at school will be standardized and capped out to promote fairness, regardless of the school attended, the region and the attendance status.

### **ACCELERATING ELIGIBILITY FOR MORE GENEROUS BENEFITS UNDER SOCIAL SOLIDARITY PROGRAM**

Persons whose parents received the supplement for handicapped children requiring exceptional care will be able to benefit from accelerated eligibility for more generous benefits under the Social Solidarity Program. Currently, to be eligible for these more generous benefits, a person must have received benefits under the Social Solidarity Program for at least 66 of the preceding 72 months.

The calculation of the length of time a person has been a recipient of the Social Solidarity Program will be changed so as to include the length of time the supplement for handicapped children requiring exceptional care was received.

### **EXTENSION OF PERIOD EXCLUDED UNDER THE QUEBEC PENSION PLAN (QPP) FOR PARENTS OF SEVERELY DISABLED CHILDREN**

The retirement pension paid under the QPP is calculated on the basis of the average pensionable earnings on which the person contributed during his or her working life. Thus, a prolonged absence from the labour market reduces the amount of the retirement pension paid. Consequently, when a parent is absent from the labour market in order to take care of a child under the age of seven, the periods of low earnings are excluded from the contributory period.

To recognize the important role of parents of severely disabled children, the government is announcing changes to the QPP's base plan. The period excluded from the base contributory period for a parent who leaves the labour market to take care of a child in respect of whom the parent receives the supplement for handicapped children requiring exceptional care, will be raised from 7 to 18 years.

### **REBATE PROGRAM FOR ACQUISITION OF ELECTRIC VEHICLE**

The government is presently ensuring the continued financing, until March 31, 2021, of rebates of up to \$8,000 on the purchase of an electric vehicle and \$4,000 on the purchase of an all-electric used vehicle.

To support Quebecers' energy transition, the government is extending the Roulez vert program until March 31, 2026.

The parameters of the rebates for the acquisition of an electric vehicle that will apply after March 31, 2021 will be specified at a later date. These rebates will provide financial support in line with market developments.

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