Quebec Budget 2021-2022

Summary for Investors

March 25, 2021

Individuals

1. Enhancement to the refundable tax credit for home-support services for seniors
2. The government's intention to review certain terms and conditions of the Québec Pension Plan's disability pension
3. Adjustment to investment requirements for the three tax-advantaged funds

Businesses

1. Reduction of the tax rate on income entitled to the Small Business Deduction (SBD)
2. Change in the rate of the dividend tax credit for non-eligible dividends
3. Addition of an option for the number of remunerated hours
4. Extending the tax credit in respect of employer contributions to the Health Services Fund for employees on paid leave
5. Temporary increase in the tax credit relating to investment and innovation
6. Elimination of the requirement to obtain an advance ruling for R&D tax credits
7. Temporary enhancement of the refundable tax credit for on-the-job training periods
8. Changes to the tax holiday for large investment projects

Other Measures

1. Alleviating the financial burden of students during the pandemic
2. Clarifications to the December 21, 2020 announcement regarding the Québec sales tax for electronic commerce
3. Measures concerning trusts
4. Autonomous application of the penalty for promoters of aggressive tax planning
5. Facilitating the return of unclaimed financial assets to right-holders
6. Addition of restrictions to certain tax incentives

Individuals

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1. Enhancement to the refundable tax credit for home-support services for seniors

The "***tax credit for home-support services for seniors***" (hereafter "**CHS**") provides financial assistance to individuals aged 70 or over to stay in their living environment for as long as possible (regardless of their place of residence[1]).

Enhancements will be introduced to the calculation of the CHS, namely, a gradual increase in the tax credit rate applicable to eligible expenses and, for seniors living in a rental apartment building, an increase in eligible expenses as well as the application of a "minimum eligible monthly rent."

Tax Credit (i.e. CHS) Rate Increase

Budget 2021-2022 includes a gradual increase in the CHS by one percentage point per year until 2026. The rate of the CHS will go up incrementally from 35% in 2021 to 40% in 2026, as shown in Table A.4 below.

This increase in the rate of the CHS will benefit both non-dependent and dependent seniors.

TABLE A.4

Gradual increase in the rate of the tax credit for home-support services for seniors
(per cent)

	2022	2023	2024	2025	2026
Tax credit rate	36	37	38	39	40

<u>Dependent seniors</u>

The government is announcing an increase to the CHS, which primarily targets seniors with family income of less than $60 135. For taxpayers with family income above this amount, the increase will be reduced by 3% for each dollar of family income exceeding this threshold as of January 1, 2022.

More specifically, this reduction will only apply to the "*amount of the enhanced CHS*" This amount is defined by the following formula:

A × (B – C)

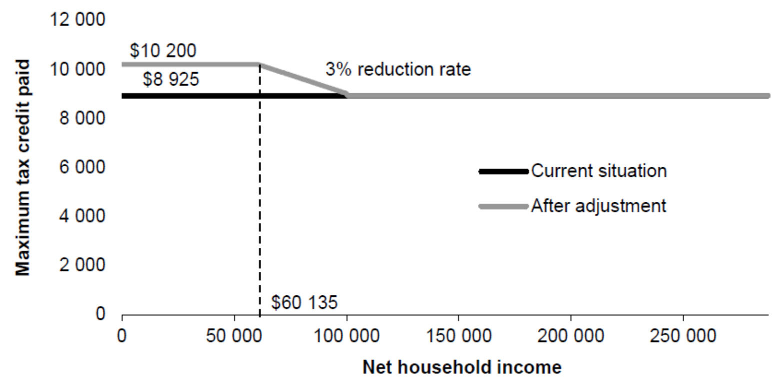
For the purposes of this formula:
- the letter A will correspond to the amount of eligible expenses for the particular taxation year after 2021;
- the letter B will correspond to the rate of the CHS for the particular taxation year after 2021;
- the letter C will correspond to the 35% rate.

[1] Private Seniors' Residence (PSR), apartment building, condominium, single-family home.

The "*amount of the enhanced CHS*" will be reducible, for each of the taxation years subsequent to 2021, based on income, at a rate of 3% for each dollar of family income exceeding the applicable reduction threshold for each of the taxation years subsequent to 2021,[2] until the "*amount of the enhanced CHS*" is zero.

CHART B.2

Tax credit increase for a non-autonomous senior requesting the maximum eligible expenses – When fully implemented
(dollars)



Non-dependent seniors

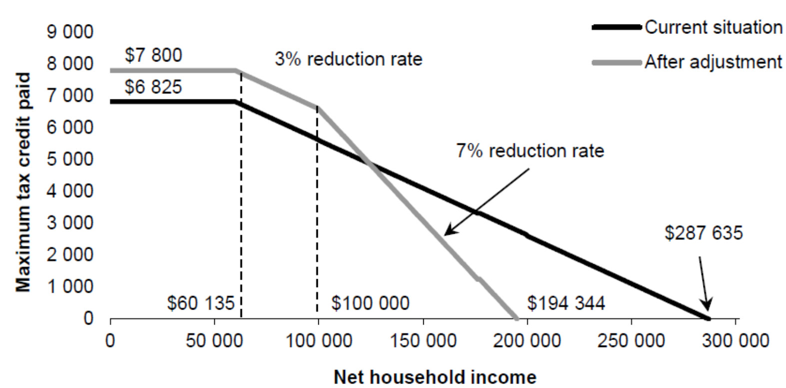
The reduction mechanism that applies to non-dependent seniors will also be changed to better reflect family income. The changes will come into effect in 2022.

The government is announcing that the amount granted under the CHS will be reduced based on family income in two phases:

- first, at a rate of 3% for every dollar of family income exceeding $60 135,[3] up to an income of $100 000;
- subsequently, at a rate of 7% for each dollar of family income exceeding $100 000.[4]

CHART B.3

Enhanced tax credit for an autonomous senior requesting the maximum eligible expenses – When fully implemented
(dollars)



[2] The reduction threshold applicable to family income for the purposes of the CHS is indexed annually. For information purposes, the threshold applicable for the 2021 taxation year is $60,135.
[3] This is the applicable reduction threshold for the 2021 taxation year. This amount will be indexed in 2022
[4] The amount of $100,000 will be indexed as of 2023.

Summary Table: The following table illustrates the year-to-year application of the enhanced rate of the CHS and new reduction terms based on family income, for both non-dependent and dependent seniors.

TABLE A.5

Parameters for calculating the tax credit for home-support services for seniors for 2021 and new calculation parameters for 2022 to 2026

	2021	2022	2023	2024	2025	2026 (When fully implemented)
Non-dependent seniors						
– Tax credit rate	35%	36%	37%	38%	39%	40%
– 1st reduction threshold: family income (in $)(1)	60 135	61 155	62 195	63 250	64 325	65 420
– 1st reduction rate	3%	3%	3%	3%	3%	3%
– 2nd reduction threshold: family income (in $)(1)	—	100 000	101 700	103 430	105 190	106 980
– 2nd reduction rate	—	7%	7%	7%	7%	7%
Dependent seniors						
– Tax credit rate	35%	36%	37%	38%	39%	40%
– Reduction threshold: family income (in $)(1)	60 135	61 155	62 195	63 250	64 325	65 420
– Reduction rate(2)	—	3%	3%	3%	3%	3%

(1) The reduction thresholds will be indexed each year. The amounts shown starting in 2022 represent a forecast based on an average indexing rate of 1.7% per year, except for the $100 000 amount applicable in 2022 as the second reduction threshold. These amounts are rounded to the nearest $5.
(2) Only the "amount of the enhanced tax credit for home-support services for seniors" will be reduced.

NATIONAL BANK

Enhanced financial assistance for seniors living in an apartment building

Beneficiaries of the CHS who live in a ***rental apartment***[5] are eligible for tax assistance equal to 5% of their rent for eligible expenses that are included in it.[6]

This budget is announcing that as of January 1, 2022:

- the maximum amount of rent used to calculate eligible expenses for the CHS will be raised from $600 to $1 200 a month resulting in an increase in tax assistance of up to $162 per year (see Table B.13 below);
- a minimum eligible expense corresponding to rent of $600 per month will be granted through the CHS to all clients living in an apartment building;
- this eligible expense could lead to an automatic tax assistance payment of up to $144 to eligible seniors who live in an apartment building but haven't applied for the tax credit.

TABLE B.13

Illustration of the increase in the maximum eligible rent for the tax credit for seniors living in an apartment building – When fully implemented
(dollars and percentage)

	Before	After	Difference
Maximum eligible monthly rent	$600	$1 200	$600
Rate of eligible expenses included in rent	5%	5%	—
Tax credit rate	35%	40%	5%
Maximum tax assistance per year	$126	$288	$162

Automatic payment of financial assistance

Budget 2021-2022 provides for financial assistance to be paid automatically, once Revenu Québec has the taxation data needed to make the payment. Accordingly, if a senior is eligible for the CHS when producing their tax return but does not apply for it, Revenu Québec may grant them tax assistance based on eligible minimum rent of $600 per month.[7]

- The tax credit amount that eligible seniors could automatically receive without having to apply for it could therefore reach $144 per year when the credit rate for the refundable tax credit for home-support services for seniors is increased to 40%.[8]

Nevertheless, seniors aged 70 and over will be encouraged to apply for the CHS in order to fully benefit from the tax assistance offered.[9] In fact, they could qualify for a higher amount of financial assistance if their rent exceeds $600 per month or they have eligible expenses for the CHS that are not included in their rent.

5 An apartment building other than a private seniors' residence.
6 These expenses mainly take into account maintenance services, such as minor exterior work (e.g. lawn mowing, raking, chimney cleaning, tree pruning, snow removal, and window and gutter cleaning).
7 As long as Revenu Québec has the information needed to determine their eligibility for this assistance. For example, an RL-31 Slip or a copy of the dwelling unit lease previously provided to Revenu Québec.
8 To identify seniors aged 70 and over who are eligible for the refundable tax credit for home-support services for seniors, Revenu Québec will use the RL-31 Slip: Information About a Leased Dwelling. This slip must be produced and provided to Revenu Québec by landlords for a dwelling whose rent was paid over the course of the year.
9 The application may be made through the income tax return (Schedule J) or, in the case of a request for advance payment of the CHS, through the prescribed form (TPZ-1029.MD.7).

2. The government's intention to review certain terms and conditions of the Québec Pension Plan's disability pension

The Québec Pension Plan (QPP) is not only intended to provide retirement pensions to workers in Québec. It also provides disability benefits to dispense basic financial protection against loss of work income due to disability.

During the transition from work to retirement, the purpose of paying a disability benefit is to recognize a decline in an individual's ability to work, as well as the hardship of certain jobs.

However, an assessment of the disability pension showed that changes were needed to provide disability coverage that would be better adapted to the situation of people who are entering retirement, as well as those whose disability is an obstacle to fully reintegrating into the labour market.[1]

Thus, the Québec government is announcing its intention to undertake work in the coming months to identify the changes required to the QPP and to make the necessary legislative amendments so as to better reflect the reality of workers aged 60 and over who end up disabled. This work will increase the protection to workers on disability and improve their situation when they retire.

3. Adjustment to investment requirements for the three tax-advantaged funds

Since the creation of the Fonds de solidarité FTQ, Fondaction, and Capital regional et coopératif Desjardins, the government has supported the growth of these investment funds by allowing them to raise capital that provides a tax benefit in the form of a non-refundable tax credit granted to individuals who become their shareholders

Renewal of the local fund category

Given that the development of entrepreneurship, mainly through the creation of small and medium-sized businesses, is a driver of Québec's economic growth, the constituting act of each tax-advantaged fund will be amended to extend the investment period applicable to the local fund category until May 31, 2026 and to extend, for any fiscal year of the fund ending before January 1, 2027, the 50% increase in the amount of investments included in this category for the purpose of calculating its investment requirement.

Changes to various parameters of Capital régional et coopératif Desjardins

The mission of Capital régional et coopératif Desjardins (CRCD) is to invest in Québec SMBs, mainly those located in the regions. Starting in 2021 the government will provide the following so that CRCD can fully contribute to the recovery:

- the renewal of its $140 million annual emissions cap on Class A shares for two years;
- the renewal, for its class B shares, of annual emissions of up to $50 million for two years.

The tax credit rate for Class A shares will be reduced from 35% to 30%.

- This decrease will mean that the tax credit rate offered to CRCD shareholders matches the combined rate (federal and provincial) offered to the shareholders of the Fonds de solidarité FTQ and Fondaction.
- The tax credit rate for Class B shares will be maintained at 10%.

Over the next two years, $190 million per year will be made available to CRCD to finance Québec businesses, particularly those located in the regions.

NATIONAL BANK

Businesses

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1. Reduction of the tax rate on income entitled to the Small Business Deduction (SBD)

In Québec, the general tax rate applicable to corporations is 11.5%. A Canadian-controlled private corporation whose paid-up capital is $10 million or less and whose adjusted aggregate investment income is $50 000 or less receives a tax rate reduction of 7.5 percentage points on the first $500 000 of annual income — the business limit — from an eligible business, which lowers the tax rate applicable to the first $500 000 from 11.5% to 4%. This reduced tax rate is also known as the small business deduction, or SBD.

To fully benefit from the SBD, a corporation must also be a primary and manufacturing sectors corporation, or meet a criterion pertaining to the number of remunerated hours. A corporation is a "primary and manufacturing sectors corporation" for a taxation year if over 25% of its activities consist of primary and manufacturing sectors activities. A corporation whose proportion of primary and manufacturing sectors activities reaches 50% qualifies for the highest rate of the SBD. The corporation's SBD rate is reduced linearly, where its proportion of primary and manufacturing sectors activities is between 25% and 50%, and reaches zero when this proportion is 25% or less.

A corporation satisfies, for a given taxation year, the criterion pertaining to the number of remunerated hours and may benefit from the highest rate of the SBD if either of the following conditions are met:

- for the given year, the remunerated hours of its employees totalled at least 5 500;
- for the taxation year preceding the given year, the remunerated hours of its employees and those of the corporations with which it is associated totalled at least 5 500.

To ensure that a corporation does not lose all of its SBD because of a minor discrepancy with the required threshold, a corporation's SBD rate for a taxation year is reduced linearly, where the total number of remunerated hours is between 5 500 and 5 000, and reaches zero when the total does not exceed 5 000 hours.

The $500 000 business limit is gradually reduced if the corporation's paid-up capital and that of the corporations with which it is associated is between $10 million and $15 million and if the adjusted aggregate investment income of the corporation and the corporations with which it is associated is between $50 000 and $150 000. It is totally eliminated when paid-up capital reaches $15 million or the adjusted aggregate investment income reaches $150 000.

To further ease the tax burden on SMBs, the current 7.5% SBD rate will be raised so that the maximum rate available to a corporation for the period that begins on the day following the day of the budget speech is 8.3%. The following table shows the tax rates applicable to corporations that qualify for the full SBD.

Minimum tax rate applicable to income eligible for the SBD
(per cent)

	Applicable rate	
	January 1, 2021 to the day of the budget speech	**From the day following the day of the budget speech**
General tax rate	11.5	11.5
Maximum SBD rate(1)	–7.5	–8.3
TOTAL	**4.0**	**3.2**

(1) This rate is reduced linearly, where the number of remunerated hours of the corporation's employees is less than 5 500 hours but more than 5 000 hours, or where the proportion of the corporation's primary and manufacturing sectors activities is between 25% and 50%. It reaches zero when the number of remunerated hours does not exceed 5 000 and the proportion of the corporation's primary and manufacturing sectors activities does not exceed 25%.

The announced change to the SBD rate will apply to a corporation's taxation years ending after the day of the budget speech. If a taxation year of a corporation straddles periods to which different SBD rates apply, the SBD rate that will apply to the corporation for that taxation year will correspond to an average rate calculated taking into account the number of days in the taxation year included in each period and the SBD rate applicable to each of these periods. The other terms and conditions pertaining to the SBD — as regards, for example, the linear reduction of the SBD rate on the basis of the number of remunerated hours and the proportion of primary and manufacturing sectors activities — will remain unchanged.

It should be noted that the Budget Speech mentions that the increase in the SBD will apply as of April 1, 2021 while the Additional Information document and the budget plan indicate that the modification will occur after the day of the Budget Speech on March 25, 2021.

2. Change in the rate of the dividend tax credit for non-eligible dividends

In this budget, an increase in the small business deduction (SBD) is announced. To ensure a better integration of the Québec corporate tax system with the personal tax system, the rate of the dividend tax credit for non-eligible dividends will be reduced. Consequently, the rate of the tax credit for non-eligible dividends, which is currently 4.01% of the grossed-up dividend amount, will be reduced to 3.42% of the grossed-up dividend amount of a dividend received or deemed received after December 31, 2021. For greater clarity, no change is made to the non-eligible dividend gross-up rate.

The maximum combined federal/provincial marginal tax rate for non-eligible dividends will increase from 48.02% to 48.70%.

The following table illustrates the impact for a corporation entitled to the small business deduction to realize a taxable income of $1 000, and distribute it as a non-eligible dividend in the following three situations:

- Before the two measures come into force
- Impact of the increase in the SBD, only
- Impact of the two measures.

	Before Budget	After Budget 2021Dividend	After Budget 2022Dividend
CORPORATION	2021	2021	2022
	Income < than $500 001	*Income < than $500 001*	*Income < than $500 001*
Benefit	$1 000,00	$1 000,00	$1 000,00
Corporate Tax			
Federal	$90,00	$90,00	$90,00
Provincial	$40,00	$32,00	$32,00
Total	**$130,00**	**$122,00**	**$122,00**
PERSONAL	***Non-Eligible Dividend***	***Non-Eligible Dividend***	***Non-Eligible Dividend***
Shareholder Dividend	$870,00	$878,00	$878,00
Gross-up	$130,50	$131,70	$131,70
Taxable Income	$1 000,50	$1 009,70	$1 009,70
Personal Income Tax			
Total Personal Income Tax	$417,76	$421,60	$427,56
After Tax Liquidity	***$452,24***	***$456,40***	***$450,44***
Combined Rate	**54,78%**	**54,36%**	**54,96%**

Thus, the reduction of the dividend tax credit has greater implications than the reduction of the tax rate on income entitled to SBD since the overall combined rate will increase from 54.78% to 54.96%.

3. Addition of an option for the number of remunerated hours

As part of the measures put in place to mitigate the effects of the COVID-19 pandemic, some corporations were forced to temporarily cease operating, which may have reduced the number of remunerated hours and, as a result, decreased the SBD rate from which they would otherwise have been able to benefit. Some corporations may even lose all of their SBD as a result.

On June 29, 2020, the Ministère des Finances announced that changes would be made to the Québec tax legislation in order to add an ad hoc adjustment to the calculation of the remunerated hours of a corporation or partnership, which covered the period from March 15, 2020, to June 29, 2020.

In order to limit the negative impact of a temporary suspension of a corporation or partnership activities that occurred after June 2020 on the calculation of the SBD, the tax legislation will be amended to introduce an option concerning the number of remunerated hours.

Accordingly, for a given taxation year that ended after June 30, 2020, but before July 1, 2021, a corporation may apply to the Minister of Revenue the number of remunerated hours that were used to determine whether it was eligible for the SBD or to establish its SBD rate for its taxation year immediately preceding the given year, to be used to determine whether it qualifies for the SBD or to establish its SBD rate for the given year. For a given fiscal period of a partnership that ends after June 30, 2020, and before July 1, 2021, a corporation that is a member of the partnership during a taxation year in which the given fiscal period ends may apply to the Minister of Revenue for the partnership's remunerated hours, for its fiscal period ended immediately before the given period, to be used to determine eligibility for the SBD of the corporation's share of the partnership's income for the given period.

A corporation may apply to the Minister of Revenue when filing its tax return, or if the tax return has already been sent, submit its request separately.

4. Extending the tax credit in respect of employer contributions to the Health Services Fund for employees on paid leave

Last April the government introduced a tax credit in respect of employer contributions to the Health Services Fund for employees on paid leave; it was intended for employers eligible for the Canada Emergency Wage Subsidy (CEWS). This credit gives more financial support to eligible Québec businesses by paying all Health Services Fund contributions on the salaries of employees on paid leave.

Last December the government announced that the tax credit in respect of employer contributions to the Health Services Fund for employees on paid leave would be extended again until March 13, 2021. Since the terms of the CEWS have been made public for the periods from March 14, 2021 to June 5, 2021, the government is announcing in Budget 2021-2022 a further extension of the tax credit in respect of employer contributions to the Health Services Fund for employees on paid leave until June 5, 2021.

5. Temporary increase in the tax credit relating to investment and innovation

On March 10, 2020, the tax credit relating to investment and innovation was introduced to encourage productivity gains of businesses in all regions of Québec, while further promoting investments in regions where the economic vitality index is low.

Briefly, the tax credit relating to investment and innovation is granted to a qualified corporation that acquires, after March 10, 2020, and before January 1, 2025, manufacturing or processing equipment, general-purpose electronic data processing equipment, or certain management software packages. It is calculated on the portion of the specified expenses incurred to acquire a specified property in excess of $5 000 or $12 500, depending on the property.

In order to encourage them to carry out their investment projects and to stimulate Québec's economic recovery, the tax credit relating to investment and innovation will be temporarily increased.

TABLE A.2

Rates of the tax credit relating to investment and innovation
(per cent)

Place where the property is acquired to be used mainly	Rates applicable after March 10, 2020 and ending on the day of the budget speech	Rates applicable after the day of the budget speech but before January 1, 2023	Rates applicable after December 31, 2022 but before January 1, 2025
Low economic vitality zone	20	40	20
Intermediate zone	15	30	15
High economic vitality zone	10	20	10

6. Elimination of the requirement to obtain an advance ruling for R&D tax credits

A taxpayer or member of a partnership who carries on a business in Canada and who undertakes scientific research and experimental development (R&D) in Québec, or causes such R&D to be undertaken on the taxpayer's behalf, can benefit from various refundable tax credits.

A first of these refundable tax credits is commonly known as “R&D salary.” A second refundable tax credit is commonly known as “R&D university.”

Currently, a taxpayer can benefit from a R&D university tax credit only if a favourable advance ruling has been given by the Minister of Revenue regarding the research contract.

Furthermore, an individual who is a member of a partnership may only benefit from his portion of the R&D salary tax credit or the R&D university tax credit if a favourable advance ruling by the Minister of Revenue has been given confirming that the objectives of these tax credits and formalities for obtaining financing have been met.

In order to reduce the administrative procedures for R&D tax credits, the tax legislation will be amended to eliminate the requirement to obtain a favourable advance ruling from the Minister of Revenue to benefit from these tax credits.

This requirement will be replaced by changes to the information collected by Revenu Québec to verify the conditions for applying these tax credits and continue to ensure the integrity of the measures.

7. Temporary enhancement of the refundable tax credit for on-the-job training periods

The purpose of the refundable tax credit for on-the-job training periods is to support the efforts of businesses that contribute to the development of the professional competence of students and apprentices.

Briefly, a taxpayer who carries on a business in Québec, has an establishment in Québec, and hires a student or apprentice for a qualified training period may, under certain conditions, benefit from the refundable tax credit for on-the-job training periods.

The tax credit is based on the qualified expenditure in respect of an eligible trainee, which consists of wages or salary paid to a trainee as part of a qualified training period and wages or salary paid to an eligible supervisor for the hours devoted to the supervision of the trainee. However, the qualified expenditure is curtailed by various factors based on the training period and trainee involved.

The basic rate of the tax credit is 24% where the taxpayer is a corporation and 12% where the taxpayer is an individual. These two rates are 32% and 16%, respectively, where the eligible trainee is a disabled person, an immigrant, or an Aboriginal person, or where the training takes place in an establishment of the taxpayer located in an eligible region. These rates may be increased in the case of eligible trainees enrolled in an education program or a prescribed program.

To facilitate labour market integration of students and apprentices, while encouraging businesses to contribute to the development of young people's skills, the tax credit rates, other than the enhanced rates applicable to eligible trainees enrolled in an education program or a prescribed program, will be increased by 25%.

The tax legislation will be amended so that:

- the basic rate of the tax credit is increased from 24% to 30% where the eligible taxpayer is a corporation;
- the basic rate of the tax credit is increased from 12% to 15% where the eligible taxpayer is an individual;
- where the eligible trainee is a disabled person, an immigrant, an Aboriginal person, or where the on-the-job training takes place in an eligible region:
    - the tax credit rate is increased from 32% to 40% where the eligible taxpayer is a corporation,
    - the tax credit rate is increased from 16% to 20% where the eligible taxpayer is an individual.

For greater clarity, the enhanced rates of the tax credit will remain unchanged in respect of an eligible trainee enrolled in an education program or a prescribed program.

These amendments will apply to qualified expenditures incurred after the day of the budget speech and before May 1, 2022, in respect of a qualified training period beginning after the day of the budget speech.

Accordingly, the refundable tax credit rates for on-the-job training periods, taking into account the temporary enhancement, will be as shown in the table below.

TABLE A.3

Refundable tax credit rate for on-the-job training periods
(per cent)

	Start date of training period		
	On or before the day of the budget speech	After the day of the budget speech, with regard to a qualified expenditure incurred after that day and before May 1, 2022	For a qualified expenditure incurred after April 30, 2022
Basic rate			
Employer's status:			
– Corporation	24	30	24
– Individual	12	15	12
Disabled person, immigrant, Aboriginal person or person serving a training period in an eligible region			
Employer's status:			
– Corporation	32	40	32
– Individual	16	20	16
Education program or prescribed program(1)			
Employer's status:			
– Corporation	40	40	40
– Individual	20	20	20
Education program or prescribed program,(1) in respect of a disabled person, immigrant, Aboriginal person or person serving a training period in an eligible region			
Employer's status:			
– Corporation	50	50	50
– Individual	25	25	25

(1) These rates apply to a training period completed by an individual enrolled as a full-time student in an education program at the secondary, college or university level or a prescribed program offered by a recognized educational institution. The program must provide for one or more training periods totalling at least 140 hours. The eligible taxpayer's qualified expenditure must be at least $2 500 for three consecutive taxation years or more.

8. Changes to the tax holiday for large investment projects

The tax holiday for large investment projects gives eligible companies relief from income taxes and contributions to the Health Services Fund equivalent to a maximum of 15% of their investments, spread over a maximum of 15 years.

Companies must reach a certain eligible investment threshold during their start-up periods, no more than 60 months after receiving their initial certificates, if they are to take advantage of the tax holiday

In order to support Québec businesses in carrying out of their investment projects and to make the tax holiday for large investment projects more appealing, the following three changes will be made:

- extension of the start-up period for certain investment projects;
- addition of a choice for a corporation or a partnership with respect to the date of the beginning of the tax-free period for its investment project;
- possibility for a project to modernize a business through digital transformation to be recognized as a large investment project

NATIONAL BANK

Other Measures

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1. Alleviating the financial burden of students during the pandemic

Since the beginning of the crisis, the government has announced measures to financially support students, including increasing Student Financial Assistance and suspending student loan payments from April to September 2020.

Although the situation has improved, the economic uncertainty caused by COVID-19 remains. Consequently, the government will continue to support young people while they are in school or repaying student loans.

Specifically, the government is announcing two one-time support measures:

- a lump sum of $100 for both the Fall 2020 and Winter 2021 semesters for full-time college and university students;
- eliminating interest on student loans for one year, from April 1, 2021, to March 31, 2022, in order to alleviate student debt.

2. Clarifications to the December 21, 2020, announcement regarding the Québec sales tax for electronic commerce

On November 30, 2020, as part of its economic statement, the Government of Canada tabled some legislative proposals with respect to the application of the goods and services tax and the harmonized sales tax (GST/HST) in relation to electronic commerce supplies (hereinafter, "federal proposals"), some of which echo measures already adopted by Québec in this regard. The Québec government already made public on December 21, 2020, its general intention to harmonize the QST system with the federal proposals, indicating that clarifications would be announced at a later date. Those clarifications are presented in this subsection. Those clarifications are detailed in the budget and targets:

- Cross-border digital products and cross-border services
- Goods supplied through fulfillment warehouses
- Platform-based, short-term accommodation

3. Measures concerning trusts

Trusts are used in tax planning in Québec and elsewhere.

To validate their compliance and that of their main players with tax laws, various changes will be made to tax legislation and regulations.

Harmonization with the Department of Finance Canada's July 27, 2018, news release

In conjunction with the 2018 Federal Budget, the Department of Finance Canada announced its intention to improve the collection of beneficial ownership information with respect to trusts.

On July 10, 2018, the Ministère des Finances du Québec stated that it would announce its position on this matter at a later date.

On July 27, 2018, the Department of Finance Canada released draft tax legislative proposals to improve the collection of beneficial ownership information with respect to trusts. To achieve this objective, it is proposed that certain trusts be required to provide additional information on an annual basis, that certain trusts be required to file a tax return in cases where there is no such obligation at this time, and that a penalty be added particularly in some events of non-filing.

These new measures are expected to apply to taxation years of trusts ending after December 30, 2021.

Given that, with certain exceptions, the Québec tax system is harmonized with the federal tax system with respect to the obligation to file a tax return and provide certain information on trusts, Québec tax legislation and regulations will be amended to incorporate the changes made to the federal tax legislation and regulations relating to trusts, in accordance with their general principles that were released on July 27, 2018, subject to the following.

In this regard, legislative proposals for the new penalty will be retained, except for the amount of the penalty. Instead, the person or partnership concerned will incur, for the purposes of the Québec tax system, a penalty equal to $1 000 and an additional penalty of $100 per day, calculated as of the second day that the omission or default lasts, up to a maximum of $5 000. For greater clarity, existing penalties will continue to apply.

Lastly, the changes made to the Québec tax system will be adopted only following assent to any federal statute or adoption of any federal regulation implementing the legislative proposals retained, taking into account technical amendments that may be made prior to assent or adoption, as the case may be. Moreover, these changes will apply on the same dates as those retained for the purposes of the federal measures with which they harmonize.

Change in the requirement for a trust to file an information return

In the budget speech of November 20, 2012, changes to the tax regulations were announced such that a trust (other than an excluded trust) that, during a taxation year, is resident in Canada outside Québec and that, at any time in the taxation year, owns a specified immovable, or is a member of a partnership that owns a specified immovable, is required to file, for such taxation year, an information return with Revenu Québec.

"Excluded trust" for a taxation year means, but is not limited to, the following trusts:

- a succession;
- a testamentary trust resident in Québec on the last day of the year and that owns property, the aggregate of the cost amounts of which is, throughout the year, less than $1 000 000;
- a testamentary trust not resident in Québec on the last day of the year and that owns property situated in Québec, the aggregate of the cost amounts of which is, throughout the year, less than $1 000 000.

To allow Revenu Québec to have a more complete picture of trusts that hold rental properties in Québec, changes will be made to Québec's tax regulations regarding the expression "excluded trust." Thus, a testamentary trust will no longer be an excluded trust. The same will apply to a succession, with the exception of a succession that is a graduated rate estate.

These amendments to Québec tax regulations will apply to taxation years that end after December 30, 2021.

Addition of a requirement to provide a trust's tax identification number

A tax identification number is assigned to trusts that file a return in Québec. This tax identification number appears on notices of assessment issued to trusts by the Minister of Revenue.

To facilitate the identification of trusts for the purposes of the Québec tax system, the tax legislation will be amended to add a trust's tax identification number as mandatory identification information. The "tax identification number of a trust" will mean the number used by the Minister of Revenue to identify the trust and which has been communicated by the Minister of Revenue to the trust.

Thus, a trust will have to obtain its tax identification number from the Minister of Revenue if it does not have one. In addition, it will have to indicate its tax identification number in any return, report, or other document it must file under a tax law.

This amendment will apply to any return, report, or other document required to be filed under a tax law after the day of the budget speech.

Addition of requirement to provide the trust account number

On December 13, 2017, the Department of Finance Canada released draft legislative proposals to amend the *Income Tax Act* and the *Income Tax Regulations*, including the introduction of a requirement to report a trust's tax account number.

When the March 2018 Québec Economic Plan was released, it was announced that the Minister of Revenue could require the disclosure of the trust account number, within the meaning of federal tax legislation, after assent to any federal legislation following the introduction of the trust account number.

On June 21, 2018, Bill C-74, *Budget Implementation Act, 2018, No. 1*, which included the legislative proposals of December 13, 2017, regarding the trust account number, was assented to.

To allow for better identification of trusts for the purposes of the Québec tax system, the tax legislation will be amended to add the trust account number, as defined in federal tax legislation, as mandatory identification information.

Thus, a trust will have to indicate its trust account number, as defined in federal tax legislation, in any return, report, or other document it must file under a Québec tax law once that number has been assigned to it by the Minister of Revenue.

This amendment will apply to any return, report, or other document required to be filed under a tax.

4. Autonomous application of the penalty for promoters of aggressive tax planning

On November 10, 2017, the Ministère des Finances announced a substantial increase to the penalties applicable to aggressive tax planning where an assessment based on the general anti-avoidance rule (GAAR) is issued. Thus, the tax legislation provides for the following penalties:

- a penalty equal to 50% of the amount of the tax benefit denied as a result of a GAAR-based assessment. This penalty applies to the taxpayer being assessed;
- a penalty equal to 100% of the amount of the promoter's fees related to the avoidance transaction to which GAAR applied, where the taxpayer being assessed is liable for the 50% penalty described above, in respect of the amount of the tax benefit denied.

The promoter's penalty is therefore dependent on the penalty incurred by the taxpayer being assessed under GAAR.

Considering the complexity of the schemes in respect of which GAAR-based assessments are issued, the tax legislation will be amended so that the penalty applicable to a promoter of a transaction or series of transactions that includes the transaction reviewed under GAAR will apply autonomously, regardless of whether there is a penalty applied beforehand on the taxpayer who is subject to the GAAR-based assessment.

However, for greater clarity, the penalty will only be applied to a promoter once the Minister of Revenue has established a GAAR-based assessment against a taxpayer.

The autonomous application of this penalty will make promoters who market or promote such schemes liable, since they are better positioned than the taxpayer to evaluate the underlying risks.

This amendment will apply as of the date the bill giving effect thereto is assented to.

5. Facilitating the return of unclaimed financial assets to right-holders

Following certain events such as death, some beneficiaries may be entitled to receive some financial assets but aren't informed of it. To assist right-holders in obtaining such owed property, the government intends to amend the *Unclaimed Property Act*, for example, by specifying the criteria governing life insurance contracts.

6. Addition of restrictions to certain tax incentives

The Québec tax system includes various tax incentives aimed, for example, at encouraging certain activities or certain behaviour. These tax measures may take the form of a refundable or non-refundable tax credit, or a tax holiday.

Some tax incentives require a certificate, attestation or other document issued by a government department or sectoral body while, for other tax incentives, the administrative responsibilities are solely those of Revenu Québec.

All of these tax incentives require that specific conditions be met by the applicant, whether it is related, for example, to the activity the applicant is carrying out, the sector in which the applicant operates, or the region where the applicant's activities are carried out.

Several tax incentives, particularly in the cultural sector, also include specific restrictions, such as those on content intended for an adult audience that contains explicit sex scenes. Other tax measures also include restrictions on content that promotes, among other things, discrimination, racism or violence.

For most incentives provided by the Québec tax system, these restrictions are sufficient. However, the changes in digital technology necessitated a review of the current restrictions in terms of the objectives of this tax assistance, and brought to light the need to introduce specific restrictions to ensure that those objectives are achieved.

Accordingly, amendments will be made to the tax legislation and the Act respecting the sectoral parameters of certain fiscal measures (hereinafter, “the Sectoral Act”) so as to add restrictions needed for various tax incentives, taking into account the context of each of the measures, and whether or not there is a department or sectoral body attesting beforehand to the compliance with certain conditions.

7. Supporting Revenu Québec's new tax audit initiatives

To ensure it collects all the tax revenue to which it is entitled, the government will introduce new tax audit initiatives and step up its audits in sectors considered at high risk for tax evasion and avoidance. Revenu Québec will receive $50 million in funding over five years for this purpose.