2011 Quebec Budget Summary

March 17, 2011

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INTRODUCTION

"I am announcing that we are forecasting today a deficit of $3.8 billion in 2011-2012 and $1.5 billion in 2012-2013, and that the Québec government's budget will be balanced as planned in 2013-2014," declared Finance Minister Raymond Bachand. Here are the budget highlights.

1. INCOME TAX MEASURES

1.1 Introduction of a tax credit for experienced workers

To encourage experienced workers to remain in, or return to, the labour market, a tax credit to eliminate the income tax that people 65 or over would have had to pay on part – ultimately, a maximum of $10,000 – of their eligible work income in excess of $5,000 will be introduced as of the 2012 taxation year.

1.1.1 Determination of the tax credit

Individuals who reach the age of 65 will be able to deduct, in the calculation of their income tax otherwise payable for the year, an amount equal to 15.04% of the eligible amount of work income.

1.1.2 Eligible amount of work income

For the purposes of the tax credit for experienced workers, the term "eligible amount of work income" of an individual for a particular taxation year means the amount by which the individual's eligible work income for the year exceeds $5,000, to a maximum of:

- $3,000, if the particular taxation year is 2012;
- $4,000, if the particular taxation year is 2013;
- $5,000, if the particular taxation year is 2014;
- $8,000, if the particular taxation year is 2015;
- $10,000, if the particular taxation year is after 2015.

1.1.2.1 Eligible work income

An individual's eligible work income for a particular taxation year will correspond to the aggregate of the following:

- the salaries, wages and other remuneration, including gratuities, taken into account by the individual in computing his or her income for the year from an office or employment;
- the amount by which the individual's income for the year from any business the individual carries on either alone or as a partner actively engaged in the business exceeds the aggregate of the losses for the year from such businesses;
- an amount included in the calculation of the individual's income for the year under the *Wage Earner Protection Program Act*, in regard to wages within the meaning of the Act;
- an amount included in computing the individual's income for the year as earnings supplements received under a project sponsored by a government or government agency in Canada to encourage an individual to obtain or keep employment or to carry on a business either alone or as a partner actively engaged in the business;
- an amount included in computing the individual's income for the year as a grant to carry on research or any similar work.

1.2 Greater access to the refundable tax credit for informal caregivers of persons of full age (as of January 1, 2011)

1.2.1 Informal caregivers housing an eligible relative

The refundable tax credit for informal caregivers will apply solely to informal caregivers who house an eligible relative in a dwelling of which the informal caregiver or the latter's spouse is the owner, lessee or sublessee, alone or with a person other than the eligible relative.

1.2.2 Informal caregivers cohabiting with an eligible relative

The refundable tax credit for informal caregivers will apply to informal caregivers who cohabit with an eligible relative in a dwelling of which the latter or his or her spouse is the owner, lessee or sublessee alone or with another person, provided a physician attests that the eligible relative is unable to live alone because of a severe and prolonged impairment in mental or physical functions.

1.2.3 Informal caregivers caring for an elderly spouse

The refundable tax credit for informal caregivers will apply to individuals who cohabit with their spouse in a dwelling, other than a dwelling in a residence for elderly persons, of which they or their spouse is the owner, lessee or sublessee alone or with another person, provided the spouse is 70 or over at the end of the year, or on the date of death if the spouse died in the year, and has a severe and prolonged impairment in mental or physical functions rendering the spouse unable to live alone, as attested by a physician.

However, an individual may not, for a particular year, receive the refundable tax credit for informal caregivers of persons of full age with respect to his or her spouse if another person claims the tax credit for the year with respect to the individual or the individual's spouse.

1.3 Replacement of the refundable tax credit for the acquisition or leasing of a new green vehicle by a purchase or leasing rebate program

The budget stipulates the implementation, as of January 1, 2012, of an electric vehicle purchase or lease rebate program that will replace the existing refundable tax credit. It follows that only vehicles acquired or leased under a long-term leasing contract before January 1, 2012 may give rise to the refundable tax credit for the acquisition or leasing of a new green vehicle.

The purchase or lease rebate program will apply to vehicles whose engine type includes a form of electrification and will focus chiefly on rechargeable hybrid electric vehicles and exclusively electric vehicles able to travel on a public road where the authorized speed limit is more than 50 kilometres per hour.

For this type of vehicle, it is expected that the rebate will be calculated on the basis of battery capacity in kilowatt-hours. For 2012, the rebate will range between $5,000 and $8,000.

The tax legislation will be amended to stipulate that, for vehicles with a weighted fuel consumption rating from 0.01 to 2.99 litres of gasoline per 100 kilometres acquired or leased under a long-term lease contract after March 17, 2011 and before January 1, 2012, the amount of the tax credit granted for the acquisition of such vehicle will rise from $3,000 to $7,769.

1.4 Introduction of a refundable tax credit for the production of cellulosic ethanol and changes to the existing refundable tax credit for the production of ethanol

A refundable tax credit applicable to cellulosic ethanol production which may reach $0.15 per litre of eligible cellulosic ethanol produced will be granted, for a period beginning March 17, 2011 and ending March 31, 2018, for the eligible production of cellulosic ethanol by an eligible corporation.

Moreover, changes will be made to the existing refundable tax credit for the production of ethanol in Québec to simplify its administration.

1.5 Changes to the refundable tax credit for book publishing

The sector parameters of the refundable tax credit for book publishing will be changed so that the digital version of an eligible book or a book that is part of an eligible group of books of a corporation be eligible for the tax credit.

1.5.1 Favourable advance ruling or certificate

SODEC (Société de développement des enterprises culturelles) must indicate on the favourable advance ruling or the certificate it issues for an eligible book that the digital version of the book constitutes an eligible digital version of the eligible book.

1.5.2 Broadening of the labour expenditure attributable to preparation costs

The labour expenditure attributable to preparation costs of a corporation will mean the amounts of the same nature incurred and paid by the corporation for the delivery of services supplied in Québec for eligible digital version publishing work.

1.5.3 Application date

These changes will apply to a book for which an initial application for an advance ruling is filed with SODEC after March 17, 2011.

1.6 Change to the refundable tax credit for sound recording production

1.6.1 Change relating to the sector parameters applicable to an eligible sound recording

1.6.1.1 Eligible sound recording

The requirement relating to the presence of a physical medium will be eliminated.

1.6.1.2 Application date

This change will apply to a sound recording for which an initial application for an advance ruling is filed with SODEC after March 17, 2011.

1.7 *Measures to encourage investments of tax-advantaged funds*

1.7.1 Recognition of investments made for business succession

1.7.1.1 Relève Québec Fund

The government announced the implementation of the Relève Québec Fund, with capital of $50 million.

Mission and lending and investment policies

The Relève Québec Fund, which will last twelve years, will offer loans at attractive interest rates for business transfers to fund part of the initial investments by business buyers.

To tap the fund, the business buyer must be an individual and make a minimum initial investment of $50,000. In addition, the transferred corporation must have a participation by one of the three tax-advantaged funds or an entity of their network as unsecured lender, minority or majority investor.

Loans by the fund will be equivalent to the invested capital of the business buyer. Loans to a business buyer will range between $50,000 and $200,000. Where more than one business buyers associate to acquire a business, a maximum amount of $500,000 will be allocated per business.

1.7.1.2 Investments in ceded businesses

The statutes of incorporation of tax-advantaged funds will be amended to stipulate that eligible investments for the purposes of the investment standard will include investments incorporating a security made by a tax-advantaged fund in a business – whose assets are less than $100 million or whose net equity is less than $50 million –, provided such investments are part of a financing package for the business succession in which the Relève Québec Fund participates.

1.7.2 Greater recognition of investments in local venture capital funds

The investment period applicable to the local fund category will be extended to May 31, 2016.

1.8 *Capital Anges Québec: $30 million for seeding and startup of technology businesses*

1.8.1 A $30 million partnership with angel investors

Capital Anges Québec will be constituted as a limited partnership and the government will make a contribution of $20 million towards its capitalization. Investissement Québec will be the fund's limited partner. Investments by angel investors totalling $10 million will be matched with investments by the fund. The total amount available for businesses will thus be $30 million.

1.9 *Creation of Exportation Québec*

The 2011-2012 Budget stipulates the implementation of Exportation Québec, a unit dedicated to supporting exports. Exportation Québec will come under the authority of the Ministère du Développement économique, de l'Innovation et de l'Exportation (MDEIE).

1.10 Introduction of the Export Program

The 2011-2012 Budget also stipulates the introduction of an export program that will bring together all the export assistance measures currently offered by the MDEIE, while enhancing the existing service offering.

2 MEASURES RELATING TO CONSUMPTION TAXES

2.1 Adjustment to the tobacco tax stemming from the rise of the Québec sales tax

On June 23, 1998, the Québec sales tax (QST) ceased to apply to tobacco products. To reflect the fact that the rate of the QST will be 9.5% as of January 1, 2012, the rates of the tobacco tax will be adjusted accordingly.

2.2 Implementation of a new mechanism for managing the tax exemption of Indians regarding fuel tax

So that Indians and bands can, regarding such purchases, benefit from the tax exemption allowed by the *Indian Act* sooner, the mechanism for managing this exemption stipulated by the fuel tax system will be changed to replace the existing reimbursement measure with a purchase exemption measure applicable as of July 1, 2011.

3. OTHER MEASURES

3.1 Countering tax evasion and unreported work

The government has announced a series of new initiatives:

- implementation of the Agence du revenu du Québec with a cost-benefit approach;
- intensification of measures to combat unreported work in the construction industry and increase of penal and administrative sanctions;
- targeted actions against organized networks of unreported work;
- concerted efforts to deter the illegal supply of daycare services;
- broadening of efforts to combat tobacco smuggling to neighbourhood networks;
- additional staff for the Autorité des marchés financiers to combat economic and financial crime.

3.2 Acting now to secure an adequate retirement income for all generations

3.2.1 Stabilizing the financial situation of the Québec Pension Plan

3.2.1.1 A gradual rise in the contribution rate

The 2011-2012 Budget stipulates that as of January 1, 2012, the Plan contribution rate will be raised gradually from 9.9% to 10.80% over six years, in increments of 0.15 percentage point per year. This represents a maximum annual increase of $201.60 in 2018.

3.2.2 Change to the adjustment factors to encourage later retirement

3.2.2.1 Additional enhancement for retiring after age 65

For pensions applied for after age 65, the 2011-2012 Budget stipulates that as of January 1, 2013, the monthly increase will be enhanced and will rise from 0.5% to 0.7%, i.e. 8.4% per year.

Accordingly, a pension applied for at age 70 will be enhanced by a maximum of 42% compared with 30% currently.

The maximum amount of a pension applied for at age 70 will reach $16,358 per year, an increase of $1,382 per year, or $115 per month.

3.2.2.2 Adjustment to the pension before age 65 to foster labour market participation

The 2011-2012 Budget stipulates that the monthly reduction rate for pensions applied for prior to age 65 will be raised by a maximum of 0.1 percentage point, from 0.5% to 0.6% in the case of a maximum pension.

The adjustment to the monthly reduction will have no impact on current retirees and its gradual implementation, starting in 2014, will leave workers enough time to adjust their retirement planning.

The full impact for a pension applied for at 60 will apply to workers currently age 55 or under.

3.2.3 Implementation of an automatic contribution rate adjustment mechanism

The 2011-2012 Budget stipulates, like the Canada Pension Plan, that an automatic adjustment mechanism will be put in place as of January 1, 2018 to secure such stability in the long run.

3.2.4 Bill to be tabled in the spring of 2011 to follow up on the measures contained in the budget

Other adjustments to the QPP will be made public in the near future. Provisions will be made, in particular, to:

- eliminate the requirement to have stopped working in order to receive the QPP pension starting at age 60;
- increase the amount of the orphan pension.

3.2.5 Encourage saving by setting up voluntary retirement savings plans

The government announced, as part of the 2011-2012 Budget, that it is committed to making the necessary amendments to Québec's legislative and regulatory frameworks to allow the development of new voluntary retirement savings plans (VRSP) in Québec based on the pooled registered pension plans framework.

In addition, as is the case for RRSPs, contributions to a VRSP may be deducted from income and the amounts accumulated in the plan will not be taxed as long as they are not withdrawn.

3.3 University Funding Plan

3.3.1 Sources of funding

The government has decided to set its contribution to the University Funding Plan to at least 50%. In 2016-2017, it will transfer $430 million to universities.

3.3.2 Gradual and managed increase in tuition fees

Tuition fees will be raised by $325 a year as of 2012-2013. This increase will begin to take effect as of fall 2012.

The increase will apply over five years. Accordingly, tuition fees will rise by $1,625, to $3,793 in 2016-2017, compared with $2,168 in 2011-2012.

3.3.3 Student financial assistance

The government is compensating students who are beneficiaries of the Loans and Bursaries Program for the increase in tuition fees.

- The government is increasing the resources distributed in the form of bursaries and offering a special allowance to some students who receive only loans.
- The government is thus avoiding adding to the debt load of students receiving bursaries. Indeed, it is keeping the loan ceilings at the 2010-2011 level for students who are beneficiaries of the Loans and Bursaries Program.
- In addition, all students, regardless of whether or not they are beneficiaries of the Loans and Bursaries Program, will be able to reduce the financial impact of the tuition fee increase through tax assistance.

The government is taking another initiative in regard to the Loans and Bursaries Program by reducing the contribution required of parents and spouses.

A transportation expense will henceforth be taken into account for students who are beneficiaries of the Loans Program for Part-Time Studies who attend a university institution in one of the regions.

Lastly, the Deferred Payment Plan currently in place will be improved.

3.3.4 Performance commitments with universities

Partnership agreements will be concluded between the government and each university to make sure that the additional revenue available to universities will be used for certain specific purposes.

3.4 Shale gas

The budget stipulates:

- a budget of $7 million to conduct the strategic environmental assessment;
- an investment of $6 million over three years to step up the inspection of shale gas facilities and wells;
- the implementation of a completely revised royalty system for the shale gas industry for which the royalty rate will vary with the price of the resource and the productivity of the well, and could reach 35%;

- the payment of compensation of $100,000 per well in production to the municipalities concerned over a period of 10 years;
- the elimination of the tax credit for resources with respect to shale gas exploration, which will be replaced by a non-refundable royalty credit for exploration.

4. REMINDER CONCERNING THE MARCH 30, 2010 BUDGET

4.1 Additional increase in the rate of the Québec sales tax as of January 1, 2012

In its 2010-2011 Budget Speech, the government announced that the QST rate would be raised by a further percentage point as of January 1, 2012, bringing it to 9.5%.

4.2 Health contribution

A health contribution was introduced as of July 1, 2010. The amount of the health contribution will be $100 per adult for 2011 and $200 per adult as of 2012.