

Tax highlights from the 2013 Quebec budget

Minister of Finance and the Economy Nicolas Marceau tabled the 2013 Quebec provincial budget on November 20, 2012. This is the first budget of the recently elected Parti québécois minority government and it waits to be seen if it can generate sufficient support from one of the other parties in order for it to be passed. The minister reported that the government estimates that the deficit for the 2012-2013 fiscal year will come in at previously projected \$1.5 billion, once the estimated \$1.8 billion extraordinary loss on the closure of the Gentilly-2 nuclear power plant is excluded. The minister indicated that the provincial budget should return to balance in the 2013-2014 fiscal year.

Overall program spending is expected to increase by only 1.8% in 2013-2014, from \$62.6 billion to \$63.8 billion, as the government attempts to strictly control spending. The minister announced that his government would cancel the previously announced post-secondary tuition increase that caused so much social upheaval earlier this year. He further noted that the government proposes to index tuition fees in the future to the cost of living.

On the tax side, there were some announced increases to personal income tax rates for higher income taxpayers, as well as increases to tobacco and liquor taxes.

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

PERSONAL TAX MATTERS

Personal income tax rates and tax brackets

The 2013 budget leaves personal income tax rates for lower-income taxpayers unchanged from 2012. The budget proposes a fourth tax bracket, which has a rate that is 1.75% greater than the current highest rate, for individuals with taxable income over \$100,000. Tax brackets and other amounts will be indexed by 2.48% to recognize the impact of inflation. The table below shows Quebec tax rates and brackets for 2013.

Taxable income range	2013 tax rates
\$11,196 - \$41,095	16%
\$41,096 - \$82,190	20%
\$82,191 - \$100,000	24%
Over \$100,000	25.75%

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

Type of income	2012 tax rates	2013 tax rates
Regular income	48.22%	49.97%
Capital gains	24.11%	24.99%
Eligible dividends	32.81%	35.20%
Non-eligible dividends	36.35%	38.54%

Other consequential changes

As a result of the increase in the highest marginal tax rate from 24% to 25.75%, several other legislative provisions are being adjusted, effective for 2013.

- The rate for determining the income tax payable by an inter-vivos trust, including a mutual fund trust and a specified investment flow-through trust.
- The rate for determining the income tax payable on children's split income.
- The rate for determining the income tax payable on income averaging annuity payments in respect of artistic activities.
- The rate for determining the income tax payable on excess profit sharing plan amounts.
- The rate for calculating the refundable tax credit for child care expenses for individuals resident outside of Quebec who carried on business in Quebec.

The proportion of realized capital gains that must be taken into account in the calculation of adjusted taxable income for alternative minimum tax (AMT) purposes will be increased from 75% to 80%.

The rate for calculating tax on the disposition of Quebec property by non-residents is based on a rate of 12%. This rate will be increased to 12.875% for all dispositions after December 31, 2012.

Some things will not change. The non-refundable tax credit rate will remain at 20%, and the non-refundable tax credit rate for charitable donations in excess of \$200 will remain at 24%.

Restructuring the health contribution

The current health contribution of \$200 per adult was introduced in 2010. The budget proposes to vary the rate of contribution based on the individual's income for 2013 and subsequent years. The new amounts payable by an adult resident in Quebec at the end of the year will be as follows:

- Where the adult's income for the year is not over \$40,000, \$100 or 5% of the amount by which his or her income exceeds \$18,000, whichever is lower;
- Where the adult's income for the year is over \$40,000 without exceeding \$130,000, \$200 or the aggregate of \$100 and 5% of the amount by which his or her income exceeds \$40,000, whichever is lower;
- Where the adult's income for the year is over \$130,000, \$1,000 or the aggregate of \$200 and 4% of the amount by which his or her income exceeds \$130,000, whichever is lower.

The following table shows an example of the proposed health contribution levels for 2013.

Income range for 2013	2013 health contribution
Up to \$18,000	\$0
\$18,000 - \$20,000	\$0 - \$100
\$20,000 - \$40,000	\$100
\$40,000 - \$42,000	\$100 - \$200
\$42,000 - \$130,000	\$200
\$130,000 - \$150,000	\$200 - \$1,000
Over \$150,000	\$1,000

The amounts of \$18,000, \$40,000 and \$130,000 will be indexed annually beginning in the year 2014. Individuals who were exempt from making the health contribution under the previous rules will continue to be exempt under the new rules. Starting in 2013, the health contribution will be subject to source deductions for employees. In addition, individuals required to make income tax installments will be required to include the health contribution in calculating the amount of those payments.

Refundable tax credit for youth activities

The budget proposes a new 20% refundable tax credit for expenses related to children's fitness, arts and cultural programs. This credit will be in addition to the non-refundable credits for these activities currently provided by the federal government.

The aim of this program is to assist low and middle-income families with the opportunity to have their children participate in these activities. An eligible child is one who is at least 5 but not yet 16 years of age (18 in cases of mental or physical impairment).

The credit is for eligible expenses in the amount of \$100 per child for the 2013 taxation year. This amount will be increased by \$100 per year until the maximum of \$500 per year is reached in 2017. These limits are doubled for children with severe and prolonged mental or physical impairment.

The credit is available to persons who are not excluded individuals, which are defined as individuals with family income in excess of \$130,000 (indexed in 2014 and subsequent years) and persons who are exempt from tax. Eligible expenses for the purposes of this credit are similar to those eligible for the federal tax credits.

Tax credit for older workers

The budget proposes to defer the previously announced ability of employees age 65 and over to claim a tax credit that eliminates the tax payable on a portion of earned income in excess of \$5,000. The budget proposes to freeze the excess earned income cap at the 2012 level of \$3,000 for an indefinite period.

CORPORATE TAX MATTERS

Corporate income tax rates

There were no changes proposed to any corporate tax rates. The table below shows Quebec tax rates and the small business limit for 2013.

Category	2013 tax rates
General rate	11.9%
Manufacturing and processing rate	11.9%
Small business rate	8.0%
Small business limit	\$500,000

Reduction for contributions to the Health Services Fund

The budget proposes to defer the previously announced ability to reduce employer contributions to the Health Services Fund for private sector employers who employ workers aged 65 and over.

Increase in the contribution by financial institutions

The budget proposes to increase the amount and duration of the previously announced temporary increase in the rates of compensation tax on financial institutions. For the period from January 1, 2013 until March 31, 2019, the new rates will be as follows:

Type of financial institution	Tax base	Current rates	Proposed rates
Banks, loan corporations, and corporations trading in securities	Wages	1.9%	2.8%
Savings and credit unions	Wages	1.3%	2.2%
Other financial institutions	Wages	0.5%	0.9%
Insurance companies	Insurance premiums	0.2%	0.3%

Investment tax credits for manufacturing and processing (M&P) equipment

The budget proposes a two-year extension of this tax credit for property that is acquired for exclusive use in Quebec, other than property used mainly in the course of ore smelting, refining or hydrometallurgy activities. The equipment must be acquired after November 20, 2012 and before January 1, 2018, and must otherwise meet the conditions stipulated in the legislation.

In addition, higher tax credit rates may be claimed for investments made in certain administrative regions and intermediate zones. However where a qualified corporation is eligible for the tax credit for job creation, the increased M&P tax credit will remain as before the budget proposals.

Refundable tax credit for biopharmaceutical R&D

The budget proposes to temporarily increase the refundable tax credit for scientific research and experimental development (SR&ED) salaries of eligible biopharmaceutical corporations from 17.5% to 27.5%, for eligible expenditures incurred after November 20, 2012 and before January 1, 2018. Eligible corporations that are classified as small and medium enterprises (SME) could be eligible for a tax credit rate of up to 37.5% of eligible expenditures.

New tax holiday for large investment projects

The budget proposes to eliminate the existing tax holiday for major investment projects. In its place the budget proposes the new tax holiday for large investment projects, the THI. The tax holiday is applicable to large investments in the manufacturing (including mineral and wood processing), data processing and storage, and wholesale trade or warehousing sectors. Investment projects must be in excess of \$300 million to qualify.

The new tax holiday will exist for 10 years and can not exceed 15% of the total eligible investment in the project. In addition, corporations and partnerships may also receive a holiday from contributions to the Health Services Fund (HSF) on wages attributable to the project.

OTHER PROPOSALS

Tax on tobacco products

The specific tax on tobacco products is proposed to increase effective midnight on budget day. The new rates on November 21, 2012 will be:

- The rate of 10.9 cents per cigarette is increased to 12.9 cents per cigarette;
- The rate of 10.9 cents per gram of loose tobacco is increased to 12.9 cents per gram;
- The rate of 16.77 cents per gram of any tobacco other than cigarettes, loose tobacco, leaf tobacco and cigars is increased to 19.85 cents per gram; and
- The minimum rate for tobacco sticks will increase from 10.9 to 12.9 cents per stick.

Tax on alcoholic beverages

Effective 3 a.m. on November 21, 2012, the specific tax on alcoholic beverages sold for consumption in an establishment will increase to \$0.82 per litre of beer and \$2.47 per litre for other beverages. For alcoholic beverages sold for consumption other than in an establishment, the tax will increase to \$0.50 per litre of beer and to \$1.12 per litre of other beverages.

The rates applicable to micro-brewers and small scale producers will be calculated based on these new rates.

Heritage electricity

The budget proposes to repeal the previously announced increase in the cost of heritage electricity of 1 cent per kilowatt hour over five years. Instead, the budget proposes to index the cost to the consumer price index beginning in 2014.

Voluntary retirement savings plans

The budget indicates the government's intention to table a bill in the coming months that establishes voluntary retirement savings plans.

Tax evasion schemes

The budget notes that the government intends to continue its tax recovery efforts, introducing new measures to specifically combat tax evasion, with particular emphasis in 2013 on the following areas:

- Making detection and auditing of non-compliance with tax laws more effective.
- Expanding the use of sales recording modules to other activity sectors.
- Requiring certain trusts to file tax returns.
- Requiring employment agencies to obtain a certificate from Revenu Québec.
- Continuing the fight against unreported work in the construction sector.
- Continuing the fight against the illicit tobacco trade.
- Continuing the fight against economic and financial crime.
- Investigating corruption and collusion in the public procurement process.

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