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Elimination of the 4% interest charge on certain adjustments

Certain registrants acquire zero-rated supplies for the purpose of shipping them outside Québec. However, in certain situations (for example, where the property is not shipped outside Québec or where a shipping distribution centre certificate is used without authorization), the registrant must make an adjustment in calculating the net tax.

The amount of the adjustment is equal to the amount of interest calculated at the rate determined under section 28 of the *Act respecting the Ministère du Revenu*, plus 4% per annum capitalized daily. The interest is calculated on the total tax that would have been payable if the supply had not been zero-rated.

New rules have been established in the GST system concerning the interest rate applicable in such cases. In accordance with these changes, the additional 4% interest has been eliminated under the QST system, effective April 1, 2007.

For further information, see page A.78 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.

Consumption tax returns of financial institutions

The Department of Finance of Canada has introduced a new legislative framework for the allocation of input tax credits (ITCs) of financial institutions. However, none of the proposed changes to the *Excise Tax Act* in this regard will be incorporated into the QST system.

Harmonization of the QST with the GST is not necessary because, under the QST system, financial institutions are entitled to input tax refunds (ITRs) on all the services they provide.

For further information, see page A.78 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.

Elimination of the annual penalty of 6% with respect to QST payments

Until recently, an annual penalty of 6% was charged on any payment or portion of a payment not paid by the due date.

However, following the example of the GST system, the QST system has eliminated this penalty, effective April 1, 2007.

For further information, see page A.78 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.

Exemption of midwife services

On December 28, 2006, a news release of the Department of Finance Canada proposed legislative amendments exempting midwife services under the GST system. To harmonize the QST system with the GST system, midwives will be added to the list of health-care professionals whose services are exempt from the QST.

The measure will be adopted only after any laws or regulations arising from the federal news release have been passed and will apply on the same date as for the GST system.

For further information, see page A.77 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.

New measures concerning the QST rebate for prescribed new hybrid vehicles

Increase in the maximum QST rebate

In the 2007-2008 Budget Speech, the Québec Minister of Finance announced changes to the QST system that increase the maximum QST rebate for hybrid vehicles to \$2,000 for any such vehicle purchased, leased for at least 12 months or brought into Québec after February 20, 2007, and before January 1, 2009.

Form **VD-403.H-V**, *Partial Refund of the QST Paid on a Hybrid Vehicle*, will be revised to take these changes into account. In the meantime, that form must still be used to apply for the rebate.

The other terms and conditions of the rebate remain the same. Moreover, in the case of the lease of a hybrid vehicle after February 20, 2007, an application for the first instalment of the rebate may be filed as soon as QST of \$1,000 has been paid in respect of the vehicle.

New vehicles added to the list

The list of prescribed new hybrid vehicles has just been updated to include the 2007 Honda Civic Hybrid, the 2007 Nissan Altima Hybrid and the 2007 Toyota Prius. You may be entitled to a QST rebate if the vehicle was purchased, leased for at least 12 months or brought into Québec after March 23, 2006, and before January 1, 2009.

For further information, see page A.77 in *Additional Information on the Budgetary Measures*, published by the Ministère des Finances.



Gradual reduction of the tax holiday granted to small and medium-sized manufacturing businesses in remote resource regions

The tax legislation will be amended so that the deduction that a qualified corporation may claim in calculating its **taxable income** for a taxation year will be equal to 50% of its income from an eligible business for the 2008 calendar year and 25% thereof for the 2009 and 2010 calendar years.

The legislation will also be amended so that the deduction that a qualified corporation may claim in calculating its **paid-up capital** for a taxation year will be equal to 50% of the paid-up capital for the 2008 calendar year and 25% thereof for the 2009 and 2010 calendar years.

Where a corporation's taxation year includes portions of more than one period, the applicable rate will be weighted to reflect the number of days of the taxation year included in each period.

The instalments of income tax and of tax on paid-up capital which a corporation is required to pay will have to be adjusted to take into account this amendment.

Furthermore, the legislation will be amended so that the tax holiday that a qualified corporation may claim in respect of the **employer contribution to the health services fund** will apply to 50% of the salaries and wages paid or deemed paid during a taxation year by a qualified corporation where they are paid or deemed paid after December 31, 2007, and before January 1, 2009, and to 25% of the salaries and wages paid or deemed paid during a taxation year by a qualified corporation where they are paid or deemed paid after December 31, 2008, and before January 1, 2011.

For further information, see page A.60 in *Additional Information on the Budgetary Measures*, published by the Ministère des Finances.



Measures concerning scientific research and experimental development (R&D)

Change to the requirement to carry on a business in an establishment located in Québec

The tax legislation will be amended so that a person or a partnership that carries on a business in Canada and does R&D work in Québec, or has such work done in Québec on behalf of the person or partnership, may be eligible for

- the tax credit for salaries and wages (R&D)
- the tax credit for university research or research carried out by a public research centre or a research consortium
- the tax credit for pre-competitive research
- the tax credit for fees or dues paid to a research consortium

This change will apply to R&D expenditures incurred by a person or a partnership in relation to a business that was carried on in Canada and whose fiscal year began after April 21, 2005.

For further information, see page A.58 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.

Recognition of an eligible public research centre

A new research centre, the Centre de santé et de services sociaux de Chicoutimi (CSSS de Chicoutimi), has been recognized for the purposes of the tax credit for university research.

This recognition applies to R&D carried out after December 31, 2005, under an eligible research contract concluded after that date.

For further information, see page A.59 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.



Higher exemption threshold for the tax on capital of a farming corporation or a corporation that carries on a fishing business

The amount to be deducted in calculating the paid-up capital of a farming corporation or a corporation that carries on a fishing business has been raised from \$400,000 to \$5 million.

The change applies to a taxation year ending after February 20, 2007. In the case of a taxation year that includes that day, the increase in the exemption corresponds to the proportion of \$4.6 million represented by the ratio between the number of days of the taxation year that follow February 20, 2007, and the number of days in the taxation year.

For further information, see page A.56 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.



Major reduction in the corporate tax rate applicable to passive income

The income tax rate applicable to the passive income of corporations will be reduced to the same level as the tax rate applicable to active income ineligible for the small business deduction.

The rate applicable to active income will be subject to three increases over the next few years. The new rates take effect respectively on February 21, 2007 (9.9%), January 1, 2008 (11.4%), and January 1, 2009 (11.9%).

Where the date of a rate increase falls within the taxation year of a given corporation, the tax rate effectively applicable for such a taxation year will be a weighted tax rate reflecting the number of days in the taxation year preceding and following the rate increase.

The instalments payable by a corporation whose taxation year includes February 20, 2007, will have to be adjusted as of the first instalment following that date.

For further information, see page A.56 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.



Adjustment to the SME Growth Stock Plan

The tax legislation will be amended so that the 21-day period following an actual withdrawal, for the purposes of the coverage deficiency amount, is replaced by a period beginning the day after the day an actual withdrawal is made during a given month and ending on the last day of the second month following that month.

In the case of transactions made in the last months of a given year, the withdrawal must be covered no later than December 31 of the given year.

The effective date of the change is January 1, 2007.

For further information, see page A.72 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.



Adjustment to the refundable tax credit for the construction, renovation or conversion of strategic buildings in the Mirabel zone

For details on the changes, see page A.74 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.



Measures concerning culture

Changes to the refundable tax credit for Québec film and television production

The higher tax credit rate of 39.375% will henceforth apply to labour expenditures relating to short and medium-length films of fiction, provided they are French-language productions.

The *Regulation respecting the recognition of film as Québec films* will be amended to stipulate that games, questionnaires and contests are productions that are eligible for recognition as Québec films if they are essentially variety shows.

The tax legislation will also be amended to withdraw the exception relating to operating income for purposes of government and non-government assistance. Consequently, excluded amounts are the only amounts that will not reduce a corporation's tax credit entitlement.

The legislation will also be amended to stipulate that the fees paid by a public broadcaster constitute an excluded amount of assistance for the purposes of the tax credit for Québec film or television production.

For further information, see page A.63 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.

Concordance changes to certain refundable tax credits relating to the cultural field

Changes will be made to the regulations relating to the tax credit for film production services and to the tax credit for film dubbing to stipulate that games, questionnaires and contests that are essentially variety shows are productions that give entitlement to these credits.

Furthermore, the amount of any financial contribution, other than an excluded amount, that is attributable to a production, a dubbed version of a production, a show, a sound recording or a book, and that is directly or indirectly provided by a government, a municipality or another administration will reduce the amount of assistance for the application of the following tax credits:

- the tax credit for film production services
- the tax credit for film dubbing
- the tax credit for the production of performances
- the tax credit for the production of sound recordings
- the tax credit for book publishing

For further information, see page A.66 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.

Changes to the refundable tax credit for the production of performances

For details on the changes, see page A.67 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.

Concordance change to the refundable tax credit for the production of sound recordings

For details on the change, see page A.69 in ***Additional Information on the Budgetary Measures***, published by the

Changes to the refundable tax credit for book publishing

For details on the changes, see page A.70 in *Additional Information on the Budgetary Measures*, published by the Ministère des Finances.



Extension and improvement of the capital tax credit

Extension and improvement of the credit for investments in manufacturing and processing equipment

The period during which investments in manufacturing and processing equipment can be made has been extended by five years. Furthermore, the rate of the capital tax credit has been increased from 5% to 10% with respect to such investments.

The property covered by the increase in the rate of the capital tax credit is class 43 property acquired after February 20, 2007, and before January 1, 2013, unless

- it is acquired in accordance with a written obligation contracted no later than February 20, 2007; or
- the construction of the property, by or on behalf of the taxpayer, was under way on February 20, 2007.

For further information, see page A.54 in *Additional Information on the Budgetary Measures*, published by the Ministère des Finances.

Extension of the higher tax credit of 15% for the modernization of forestry businesses

The period during which investments in the modernization of businesses in the forestry sector can be made has been extended by three years. Thus, subject to existing transition rules, property covered by the higher capital tax credit of 15% in the forestry sector must be acquired before January 1, 2013.

For further information, see page A.54 in *Additional Information on the Budgetary Measures*, published by the Ministère des Finances.



Introduction of a refundable tax credit for persons providing respite to caregivers

As of the 2007 taxation year, volunteers providing home respite services to caregivers of a person with a significant disability may be granted a refundable tax credit.

Caregivers will identify the volunteers eligible for the refundable tax credit. The caregivers will have an amount of \$1,000 at their disposal, which they may use to allocate a maximum of \$500 to any eligible person who provides them with at least 400 hours of volunteer home respite services in the year (about 50 days per year).

Note that the care recipient's father, mother, child, brother, sister and spouse are not considered eligible for the tax credit.

For further information, see page A.40 in *Additional Information on the Budgetary Measures*, published by the Ministère des Finances.



Non-refundable tax credit for tuition or examination fees

Parents and grandparents who support students may have the portion of the non-refundable tax credit for tuition or examination fees that a child or grandchild did not use to reduce his or her tax payable transferred to them as of the 2007 taxation year. A student may transfer a portion of the tax credit to only one person.

For further information, see page A.34 in *Additional Information on the Budgetary Measures*, published by the



Changes to the tax credit for children under 18 enrolled in vocational training or post-secondary studies

To render the tax credit for children under 18 enrolled in vocational training or post-secondary studies more equitable, the tax legislation will be amended for 2007 and subsequent taxation years.

According to the current rules, the amount of recognized essential needs per completed term for a given taxation year, with regard to a child under 18 enrolled in vocational training or post-secondary studies, must be reduced by an amount equal to the child's income for the year, even if some components of the income (scholarships, fellowships and awards) are generally not taxable. Deducting the child's total income from the amount of his or her recognized essential needs is equivalent to taxing the child's income at a higher rate than would be the case if the income had been taxed in the child's hands.

For the purposes of calculating the tax credit, the amount of \$1,860 per term (maximum of two terms) allowed for a child under 18 for a taxation year must be reduced, as of the 2007 taxation year, by an amount equal to 80% of the child's income for the year. The amount will be determined without taking into account the scholarships, fellowships and awards that the child received during the year and that give rise to a deduction in the calculation of the child's taxable income.

A similar change will be made to the calculation of the amount for other dependants.

For further information, see page A.18 in *Additional Information on the Budgetary Measures*, published by the Ministère des Finances.



Transfer mechanism for the recognized parental contribution

A non-refundable tax credit is currently available to persons with dependent children aged 18 or over who are full-time students pursuing post-secondary studies. This tax credit will be replaced by a transfer mechanism for the recognized parental contribution.

As of the 2007 taxation year, an eligible student may transfer an amount relating to an unused portion of the basic tax credit for a given taxation year to his or her father or mother. However, this amount must not exceed the limit applicable to the transfer for the year.

On the prescribed form, the student will indicate the amount he or she intends to transfer (up to the limit applicable to the transfer for the year) and whether the amount will be transferred to his or her father or mother. The student may also divide the transferred amount between his or her father and mother.

Please note that, contrary to taxation years prior to 2007, scholarships, fellowships and awards received by students no longer reduce the tax assistance granted to families who support children 18 or over who are full-time students.

For further information, see page A.21 in *Additional Information on the Budgetary Measures*, published by the Ministère des Finances.



Changes to the tax credit for child-care expenses

As of the 2007 taxation year, qualified child-care expenses will generally include all child-care expenses incurred by the household for the year, up to the annual limit on recognized child-care expenses. These expenses are no longer limited by the individual's income or that of the supporting person of the child.

In addition, qualified child-care expenses no longer have to be split between the individual and the individual's eligible spouse for the year. However, if the individual and the individual's eligible spouse for the year are both entitled to the tax credit, they must split it between them in accordance with existing rules.

The annual limit on qualified child-care expenses and the rates of the tax credit remain unchanged.

For further information, see page A.44 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.



Improvement to the refundable tax credit for the treatment of infertility

The rate applicable to eligible expenses related to a third or any additional attempt at *in vitro* fertilization will be increased from 30% to 50% for embryo transfers carried out on or after the day following the date on which Québec's *in vitro* fertilization policy comes into effect.

"Eligible expenses" are expenses related to *in vitro* fertilization carried out in accordance with Québec's *in vitro* fertilization policy.

For further information, see page A.52 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.



Enhancement of the non-refundable tax credit for retirement income

The maximum amount of eligible retirement income received by an individual (that is, the maximum that may be used to calculate the non-refundable tax credit for retirement income) has been raised from \$1,000 to \$1,500, effective for 2007 and subsequent taxation years. For a couple, the maximum is therefore \$3,000.

Eligible retirement income includes payments of a life annuity under a pension plan, annuity payments under an RRSP or DPSP, as well as payments under a RRIF. However, the old age security pension and pensions paid under the Québec Pension Plan or the Canada Pension Plan are not eligible for the tax credit.

For further information, see page A.39 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.



Introduction of a refundable tax credit to support education savings

Contributions made to a registered education savings plan (RESP) in order to save for a child's post-secondary education give entitlement to assistance paid by the Québec government through a refundable tax credit that is added to the funds of the plan.

For a taxation year, the tax credit corresponds to 50% of the Canada Education Savings Grant (CESG) for the year. It applies as of the 2007 taxation year to a CESG attributable to a contribution paid into an RESP after February 20, 2007, for a calendar year subsequent to 2006.

This Québec education savings assistance may total \$3,600 per child, on a cumulative basis.

For further information, see page A.5 in ***Additional Information on the Budgetary Measures***, published by the Ministère des Finances.

Québec 

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