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Tax News

Second quarter 2005

SPECIAL
2005-2006
Budget

This issue of *Tax News* summarizes the measures concerning consumption taxes and the fiscal measures affecting businesses and individuals that were contained in the **Budget Speech** delivered by Michel Audet, Minister of Finance, on April 21, 2005.

It also includes an article concerning the tax on insurance premiums (see the section "Other consumption taxes") and an article on interest rates for the second quarter of 2005.



Fuel tax refund for public carriers in respect of biodiesel fuel

The fuel tax system will be changed to increase the current refund rate of fuel tax paid on fuel used to supply the engines of public transit buses from 33.33% to 100% in the case of biodiesel fuel, regardless of whether or not the latter is mixed with another type of fuel at the time it is acquired by the public carrier.

This measure will apply to biodiesel fuel acquired by a public carrier after April 21, 2005.

For further information, see page 117 in *Additional Information on the Budgetary Measures*, published by the Ministère des Finances.



Reduction in the time allowed for remitting amounts collected as fuel tax and tobacco tax

Under changes to be made to the fuel tax and tobacco tax systems, agents required to collect amounts as fuel tax and tobacco tax on the sale of their products will have to remit these amounts to Revenu Québec no later than the fifteenth day of the month following the month of the sale.

These changes will apply to amounts collected or collectible by agents as fuel tax and tobacco tax, as of the first day of May.

Moreover, in the coming months, Revenu Québec will make adjustments to the working capital advances it grants under an administrative policy to certain fuel wholesalers, in order to take into account the impact, on the liquid assets of agents, of the reduction in the time allowed for remitting amounts collected as fuel tax.

For further information, see page 117 in [*Additional Information on the Budgetary Measures*](#), published by the Ministère des Finances.



Reduction in tax on capital

Tax on capital rates cut by more than half by 2009

The tax on capital rate of **corporations that are not financial institutions**, currently 0.6%, will be gradually reduced to 0.29%. These rate reductions will take effect on January 1 of each year.

The tax on capital rate of **financial institutions**, currently 1.2%, will be gradually reduced to 0.58%. The corporations covered by this reduction are banks, savings and credit unions, loan companies, trust companies and corporations that trade in securities.

For further information, see page 24 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Introduction of a capital tax credit regarding certain types of investments

A corporation other than a financial institution that makes an eligible investment during a taxation year may claim a non-refundable capital tax credit, for the taxation year, equal to 5% of the amount of the eligible investment. The capital tax credit the corporation may claim for a taxation year may not exceed the tax on capital otherwise payable by it for the taxation year.

Eligible investments are manufacturing and processing equipment, that is, class 43 assets. The amount of an eligible investment of a corporation for a taxation year will correspond to the portion of the capital cost of the eligible investment that is incurred in the year by the corporation. Barring exceptions, these assets must be acquired after April 21, 2005, and before January 1, 2008.

For further information, see page 26 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Technical change concerning the calculation of total assets

The tax legislation will provide that a corporation must neither include nor deduct, in calculating its assets, an amount shown in its financial statements resulting from an operation between it and a partnership or a joint venture of which it is a member. This change will apply by declaration, except regarding taxation years that are statute-barred on April 21, 2005.

For further information, see page 28 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Application of the minimum 120-day holding period rule to bonds issued by partnerships

The tax legislation will provide that bonds issued by a partnership are subject to a minimum holding period of 120 days including the end of the taxation year. This change will apply to taxation years ending after April 21, 2005.

For further information, see page 30 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.



Major adjustment to corporation income tax

Tax rate raised for large corporations

The tax rate applicable to active income will be raised gradually, from 2006 to 2009, by three percentage points. These rate increases will take effect on January 1 of each year concerned.

Moreover, this increase in the tax rate will result in a corresponding decrease in the reduction of the general rate of 16.25%, which is applicable regarding active income. Accordingly, the reduction will gradually decrease by three percentage points, from 7.35 percentage points to 4.35 percentage points.

For further information, see page 31 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Tax rate lowered for small corporations

A small business deduction will be introduced. Hence, the tax rate applicable to the active income of small corporations will decrease from 8.9% to 8.5% as of January 1, 2006.

Only Canadian-controlled private corporations (CCPCs) will be entitled to this reduction in their tax rate. In addition, the reduction will apply only to the first \$400,000 of annual income from an eligible business carried on by a CCPC.

Moreover, private corporations with paid-up capital greater than \$15 million will not be able to claim this reduction. There will be a gradual loss of the tax rate reduction for corporations with between \$10 million and \$15 million in paid-up capital.

For further information, see page 33 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Changes to various refundable tax credits granted in certain regions

Changes will be made to the refundable tax credit for processing activities in the resource regions, the refundable tax credit for Gaspésie and certain maritime regions of Québec and the refundable tax credit for the Vallée de l'aluminium.

The period during which qualified corporations may receive tax assistance will no longer be limited to five consecutive calendar years, but rather will be determined on the basis of a common deadline for all qualified corporations. Accordingly, any corporation that already qualifies for the tax credit for processing activities in the resource regions may continue to receive it, in accordance with the terms and conditions previously stipulated, until December 31, 2009.

Beginning in the 2005 calendar year, the notion of certified business will be changed to include the commercialization activities of a qualified corporation, where such activities are incidental to the manufacturing or processing activities carried out by a corporation associated with the qualified corporation.

Investissement Québec's administrative practice is to issue, for a given calendar year, only one qualification certificate per corporation. The certificate indicates, for each certified business, all the activities carried out by the corporation in a given sector. It is appropriate to confirm that the administrative practice of Investissement Québec corresponds to fiscal policy.

In addition, the application details of these credits will be changed to allow a corporation that carries on several certified businesses and that obtained the cancellation of a qualification certificate as a result of the economic situation in 2001 to choose between increasing its payroll on the basis of the reference calendar year of the qualification certificate that was cancelled, or on the basis of the reference calendar year of the other certified business it carries on. This change will apply to new qualification certificates obtained for a calendar year subsequent to calendar year 2002.

For further information, see page 35 in [*Additional Information on the Budgetary Measures*](#), published by the Ministère des Finances.

Measures fostering innovation

Refundable tax credits for scientific research and experimental development (R&D)

The tax legislation will be amended so that the rate a Canadian-controlled corporation that qualifies as a **small or medium-sized business** can claim will henceforth vary from 17.5% to 37.5% on the first \$2 million of R&D spending, according to the same terms and conditions as those that prevailed until April 21, 2005. This change will apply to R&D expenditures incurred after April 21, 2005, for R&D work done after that day.

The tax legislation will also be amended so that a person or partnership is required to **carry on a business and have an establishment in Québec** to be eligible for the refundable tax credit for R&D salaries and wages, the refundable tax credit for university research and the refundable tax credit for pre-competitive research. This amendment will apply to R&D expenditures incurred by a person or a partnership in relation to a business it carries on and whose fiscal period begins after April 21, 2005.

Moreover, the tax legislation will be amended so that a person or partnership will be required to carry on a business and have an establishment in Québec to be eligible for the **refundable tax credit for pre-competitive research**. The tax legislation will also be amended so that, for the purposes of this tax credit, the other person or persons with whom a person or a partnership concludes a partnership contract to do R&D work in Québec, or to have such work done for them in Québec, must also be a person or partnership that carries on a business and has an establishment in Québec. This amendment will apply to R&D expenditures incurred after April 21, 2005, for R&D work done after that day under an agreement that constitutes a partnership contract under a pre-competitive research project and regarding which the Ministère du Développement économique, de l'Innovation et de l'Exportation issues a certificate after that day.

All research centres that, since May 2, 1991, the Ministère des Finances du Québec (MFQ) has recognized as **eligible public research centres** for the purposes of the refundable tax credit for university research must henceforth file an annual return certifying that they still meet the eligibility criteria. The return must cover a calendar year and must be filed no later than the last day of February following the calendar year.

For further information, see page 41 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Adjustment to the refundable design tax credit

The tax legislation will be amended to provide that a corporation that is a member of a **qualified partnership** can benefit from the in-house component of the design tax credit provided all the other eligibility conditions are satisfied. This amendment will apply to qualified expenditures incurred by a qualified partnership regarding a business it carries on and whose fiscal period ends after April 21, 2005.

The tax legislation will also be amended so that the **gross income** of the business carried on by a corporation or a partnership, as the case may be, must be at least \$150,000, calculated on an annual basis, for the purposes of the outside component of the design tax credit. This amendment will apply to qualified expenditures incurred by a qualified corporation or by a qualified partnership, as the case may be, regarding a business it carries on and whose fiscal period begins after April 21, 2005.

Moreover, the in-house component of this tax credit will be broadened to include the entire **industrial sector** and the **number of designers** will no longer be limited.

Concerning the fashion sector, the **salary paid to a qualified patternmaker** will henceforth be included in the base of the in-house component of the design tax credit, up to a maximum annual amount of \$40,000. This change will apply regarding salaries a corporation incurs after April 21, 2005, for work relating to a qualified pattern-drawing activity done after that day by a qualified patternmaker employed by the corporation.

The **scope of the outside component** of this tax credit will be broadened to eliminate the restriction preventing an outside consultant from hiring an employee, former employee or specified shareholder of the corporation; allow a non-arm's-length relation between the corporation and the outside consultant; and simplify the calculation details of the base of this component of the tax credit, where the corporation is at arm's length with the outside consultant. These changes will apply to qualified expenditures incurred by a qualified corporation after April 21, 2005, regarding work for a qualified design activity or a qualified pattern-drawing activity done after that day, under an outside consulting contract concluded after that day.

Changes will also be made so that the **definition of "industrial design"** henceforth applies to the in-house component of this tax credit. Concerning a qualified pattern-drawing activity, it means the drawing of a pattern that gives practical effect to the ideas of the fashion designer. It also includes geometric and technical drawings, the cutting of pieces of the pattern to enable the cutting of the first sample and the differentiation of fabric. This change will apply as of April 22, 2005.

For further information, see page 47 in *[Additional Information on the Budgetary Measures](#)*, published by the Ministère des Finances.

Refundable tax credit for technological adaptation services

The *Regulation respecting the Taxation Act* will be amended to recognize the following three new college centres as eligible college centres for technology transfer for the purposes of the refundable tax credit for technological adaptation services:

- the Centre collégial de transfert de technologie sur la forêt boréale;
- the Centre technologique des résidus industriels (CTRI) ;
- the Service d'innovation et de transfert technologiques pour l'entreprise (SITTE).

For further information, see page 61 in *[Additional Information on the Budgetary Measures](#)*, published by the Ministère des Finances.



Introduction of the SMB Growth Stock Plan

The Québec stock savings plan (QSSP) will be terminated and a new plan, to be called the "SMB Growth Stock Plan" will be introduced. The new plan will have a limited span, and will end on December 31, 2009.

The SMB Growth Stock Plan will be geared to corporations of smaller size than the QSSP, i.e., corporations with assets under \$100 million compared with \$350 million under the QSSP. In addition, the SMB Growth Stock Plan will be limited to the common shares of a qualified issuing corporation or investment fund securities, and will not be open to qualifying non-guaranteed convertible securities and share subscription rights. In the same vein, a single deduction rate, i.e., 100% of the adjusted cost of qualifying shares, will apply.

In addition, the SMB Growth Stock Plan will impose an obligation of almost permanent coverage of qualifying shares. Similarly, the minimum holding period will be increased from two to three years.

Moreover, the requirement concerning a minimum of \$2 million in assets that applied to growth corporations under the QSSP will be eliminated. In addition, the business continuation rules will be eased regarding a qualifying transaction carried out under the Capital Pool Company program of the TSX Venture Exchange.

Moreover, the requirement to obtain an advance ruling from Revenu Québec will be extended to almost all public issues qualifying under the SMB Growth Stock Plan. In addition, the rules relating to the use of the proceeds of the issue will be tightened.

Lastly, some components of the QSSP will be left out of the SMB Growth Stock Plan because they do not correspond to current needs, or because the benefits they would add are insufficient in relation to the technical complexity they would impose. In particular, such is the case for the component of the QSSP concerning investment groups and the one concerning stock ownership plans.

These changes will apply as of April 22, 2005.

For further information, see page 62 in [*Additional Information on the Budgetary Measures*](#), published by the Ministère des Finances.



Measures pertaining to culture

Changes to various refundable tax credits in the cultural field

For the purposes of the application of the **tax credit for Québec film or television production**, 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** and the **tax credit for book publishing**, the tax legislation will provide that, in the case of assistance, benefits or advantages attributable to labour expenditures relating to a services contract, the amount of the assistance, benefits or advantages will reduce only the consideration attributable to the contract for the purposes of calculating the qualified labour expenditures of the corporation. These changes will apply by declaration to any property that may benefit, or may have benefited, from these tax credits, except regarding taxation years that are statute-barred on April 21, 2005. Accordingly, they will also apply regarding a year for which a notice of objection, an appeal or a waiver of prescription is duly served on the Minister of Revenue before April 21, 2005.

Lastly, the tax legislation will provide that the amount of the repayment of assistance, benefits or advantages that had previously reduced the amount of a corporation's labour expenditures or production or publishing expenses, as the case may be, in relation to property for which one of **these tax credits** was allowed, will be added to the amount of the corporation's labour expenditures or production or publishing expenses, as the case may be, for the purposes of these credits. Furthermore, the tax legislation will be amended to provide that, in the case of each of these tax credits, a special tax will be payable in the year in which a given corporation receives, is entitled to receive or can reasonably expect to receive assistance, a benefit or an advantage attributable to the corporation's labour expenditures or production or publishing expenses, as the case may be, in relation to property for which a tax credit was granted. These changes will apply to assistance, benefits or advantages repaid, received or receivable as of April 22, 2005.

For further information, see page 80 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Increase in the capital cost allowance rate for works of art by a Canadian artist

The capital cost allowance rate for works of art by a Canadian artist will be increased from 20% to 33 1/3%. This change will apply to works of art acquired after April 21, 2005.

For further information, see page 90 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Broadening of the deduction for a subscription to certain cultural activities

The tax legislation will be amended to add different types of performing arts (comedy and musical comedy, for instance) and museum exhibits to the list of eligible cultural events for the purposes of the exception relating to the cost of a subscription or block purchase of tickets, provided such events take place in Québec. These amendments will apply to purchases of subscriptions or tickets made after April 21, 2005.

For further information, see page 91 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.



Introduction of a refundable tax credit for the production of ethanol in Québec

A temporary refundable tax credit will be introduced for the production of ethanol in Québec. It will be granted for a maximum of ten years beginning no earlier than April 1, 2006, and ending no later than March 31, 2018, regarding the production of ethanol in Québec by an eligible corporation.

Accordingly, any corporation, other than an excluded corporation, which, during a taxation year, has an establishment in Québec where it carries on an ethanol production business may under certain conditions claim the refundable tax credit for that year.

Moreover, an eligible corporation's ethanol production must be sold, in Québec, to a person holding a collection officer's permit issued under the *Fuel Tax Act*.

In addition, the maximum rate of the tax credit, for a given month, will be \$0.185 per litre. Allowing for reduction factors, no tax credit will be granted for a given month when the average monthly price of crude oil is equal to or greater than US\$65.

The refundable tax credit may be granted for a given taxation year regarding a maximum ethanol production of 126 million litres. No tax credit will be granted to an eligible corporation where the total cumulative production of ethanol exceeds 1.2 billion litres. Moreover, a monetary cap will apply to this tax credit.

Lastly, the tax credit will be granted to eligible corporations for a maximum of ten years beginning no earlier than April 1, 2006. Where an eligible corporation begins to carry on an ethanol production business in Québec after March 31, 2008, the corporation will be able to claim the tax credit for a period not exceeding the number of years from the year the corporation begins to carry on the business to March 31, 2018, inclusively.

For further information, see page 91 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.



Introduction of a refundable tax credit for major employment-generating projects

A temporary refundable tax credit will be introduced regarding major employment-generating projects in the information technology sector.

Eligible corporations may claim a refundable tax credit equal to 25% of the eligible salaries incurred as of January 1, 2005, and paid to eligible employees relative to an eligible contract that will create at least 500 jobs. Eligible corporations may take advantage of this tax credit until December 31, 2016.

The refundable tax credit for major employment-generating projects may be granted to eligible corporations for eligible salaries incurred and paid to eligible employees after December 31, 2004, and before January 1, 2017.

For further information, see page 96 in *[Additional Information on the Budgetary Measures](#)*, published by the Ministère des Finances.



Other changes

Standardization of the tax treatment of assistance, benefits and advantages for the purposes of tax credits for businesses

The tax legislation will be amended to provide that repayment of assistance, benefits or advantages that had previously reduced the amount of a taxpayer's expenditures for which a tax credit for businesses was granted will be added to the amount of the taxpayer's expenditures for the purposes of the tax credit to which the taxpayer is entitled.

The tax legislation will also be amended to provide that a special tax will be payable in the year in which a taxpayer receives, is entitled to receive or can reasonably expect to receive assistance, a benefit or an advantage attributable to the taxpayer's expenditures in relation to which a tax credit for businesses was granted.

These amendments will apply to assistance, benefits or advantages repaid, received or receivable as of April 22, 2005.

For further information, see page 101 in [*Additional Information on the Budgetary Measures*](#), published by the Ministère des Finances.

Refundable tax credits for the production of multimedia titles

The tax legislation will be amended regarding the tax credit for the production of multimedia titles and the tax credit for corporations specializing in the production of multimedia titles to provide that, in the case of assistance, benefits or advantages attributable to labour expenditures relating to a services contract, the amount of the assistance, benefits or advantages will reduce only the consideration attributable to the contract for the purposes of calculating the corporation's qualified labour expenditures. This amendment will apply by declaration, except regarding taxation years that are statute-barred on April 21, 2005.

A tax credit for multimedia titles or a tax credit for corporations specializing in the production of multimedia titles may be recovered by means of a special tax, where a certificate issued in relation to a multimedia title or a corporation, as the case may be, and under which the tax credit was granted, is revoked by Investissement Québec. This amendment will apply to certificates revoked by Investissement Québec after April 21, 2005.

For further information, see page 103 in [*Additional Information on the Budgetary Measures*](#), published by the Ministère des Finances.

Standardization of the impact of a revocation for the purposes of various tax benefits

The tax legislation will be amended to provide that, for the purposes of tax credits for businesses, tax holidays and any other benefits, the amount of an overpayment of a tax credit for businesses, a tax holiday or any other benefit to a taxpayer regarding income tax, tax on capital or the employer contribution to the health services fund can be recovered by Revenu Québec at any time by means of a special tax, where it is advised of a revocation by the organization that issued the qualification certificate giving rise to the tax credit, tax holiday or other benefit, and where a special tax is not currently provided for under a given fiscal measure. This amendment will apply to certificates revoked by an organization after April 21, 2005.

For further information, see page 106 in [*Additional Information on the Budgetary Measures*](#), published by the Ministère des Finances.

International financial centres (IFCs)

To support the city of Montréal as an international financial centre, the government is renewing its commitment to maintain the tax benefits for IFC operators until at least 2008.

To better adapt the determination formula to the specific case of an IFC business carried on through a partnership and remedy the technical difficulty that could arise when losses are incurred, a further adjustment and a clarification will be made in regard to this formula.

The definition of the expression "adjusted net income" will therefore be changed to eliminate any income derived from an interest in a partnership of which the taxpayer operating an IFC is a member.

Lastly, a clarification will be made to the legislation to ensure that, for the purposes of the calculation of the adjusted net income or the adjusted net loss, as the case may be, the net income for tax purposes determined for a taxpayer may be less than zero.

These changes will apply retroactively to the coming into force of the determination formula, that is, in respect of a taxation year or fiscal period beginning after March 30, 2004.

For further information, see page 107 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Capital gains exemption for the establishment of a servitude

The tax legislation will be amended to provide that the gain resulting from the establishment of a real servitude affecting an immovable may give rise to a capital gains exemption for qualified farm property or a capital gains exemption for a principal residence, where the immovable concerned satisfies the criteria for qualified farm property or a principal residence. This amendment will apply to a real servitude established after April 21, 2005.

For further information, see page 111 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Consequential amendments for the purposes of the deduction for an eligible rebate

The tax legislation will be amended to provide that the Ministère du Développement économique, de l'Innovation et de l'Exportation may refuse to issue, for the purposes of the deduction for an eligible rebate, a qualification certificate applied for by a co-operative or federation of co-operatives, where the department notes, upon examination of the annual report of the cooperative or federation of co-operatives, that the co-operative or federation has failed to comply with the requirements of the *Cooperatives Act*. These amendments will apply retroactively to December 22, 2004.

For further information, see page 112 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Deductibility of certain expenditures related to the use of part of an individual's domicile as a private reception residence

The tax legislation will be amended so that private reception residences are not subject to the 50% limit applicable to the deduction of certain expenditures related to the use of part of an individual's domicile in carrying on a business. This amendment will apply to taxation years ending after April 21, 2005.

For further information, see page 115 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Issuing of a qualification certificate for the purposes of the refundable tax credit for an on-the-job training period

An amendment will be made to the *Taxation Act* such that, as of April 21, 2005, the Kativik Regional Government may also issue a certificate to an eligible employer regarding a training period covered by the on-the-job training program or by the apprenticeship scheme, within the limits allowed by the *Act respecting Northern villages and the Kativik Regional Government*.

For further information, see page 115 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.



New \$500 deduction for workers

As of the 2006 taxation year, individuals may deduct, in the calculation of their income for a given taxation year, an amount equal to 6% of their eligible earned income for the year, to a maximum of \$500.

For further information, see page 1 in *[Additional Information on the Budgetary Measures](#)*, published by the Ministère des Finances.



Improvement of tax assistance for persons with a mental or physical impairment

Québec's tax legislation will be amended to incorporate the measure announced on February 23, 2005, by the federal Minister of Finance with a view to lengthening the list of products and services recognized for the purposes of the impairment supports deduction. Certain measures concerning the tax credit respecting a severe and prolonged mental or physical impairment will also be incorporated.

For the 2006 taxation year, the amount used to calculate the tax credit respecting a severe and prolonged mental or physical impairment will be raised from \$2,200 to \$2,250, thereby increasing the maximum tax credit from \$440 to \$450.

As of the 2007 taxation year, the amount used to calculate the tax credit will be automatically indexed.

For further information, see page 2 in *[Additional Information on the Budgetary Measures](#)*, published by the Ministère des Finances.



Enhancement of tax assistance for natural caregivers

Increase in the supplement for handicapped children

The tax credit respecting a dependent child with an impairment will be replaced, as of the 2006 taxation year, by an increase in the supplement for handicapped children included in the refundable child assistance tax credit.

The supplement for handicapped children will be raised by \$37.50 a month, which represents an increase of \$450 for the 2006 taxation year.

All parents who are entitled to the supplement for handicapped children will be entitled to this increase even if they have no income tax payable.

For further information, see page 5 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Introduction of a refundable tax credit for natural caregivers of adults

The various measures for natural caregivers of adults will be replaced, as of the 2006 taxation year, by a refundable tax credit for natural caregivers of up to \$1,000 per person housed.

The new tax credit will consist of, for each eligible relative housed, a universal basic amount of \$550, plus a supplement of \$450 that will be reduced on the basis of the eligible relative's income for the year for which the tax credit is claimed.

The reduction rate will be 16% for every dollar of eligible relative's income in excess of a threshold of \$20,000.

The various parameters of the tax credit, except for the reduction rate, will be indexed automatically as of the 2007 taxation year.

For further information, see page 6 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Easing of the tax credit for a child engaged in vocational training or postsecondary studies

As of the 2005 taxation year, the tax legislation will be amended to provide that when a child has a major functional deficiency within the meaning of the *Regulation respecting financial assistance for educational expenses*, and the child pursues studies, in a given taxation year, on a part-time basis because of the deficiency, the child will be deemed, for the purposes of allocating the amount granted for terms completed by a child pursuing studies in vocational training or studies at the post-secondary level, to be pursuing such studies on a full-time basis in the given taxation year.

In such cases, the requirement that the child must be enrolled in a recognized program of study under which the student must devote at least nine hours a week to courses or work required by the program will be replaced by the requirement that the child must be enrolled in a recognized program of study under which the student must receive at least 20 hours of instruction per month.

For further information, see page 11 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.



Changes to the tax credits for medical expenses

Medical expenses eligible for the non-refundable tax credit for medical expenses

The tax legislation will be amended so that amounts paid after April 21, 2005, for **hyperbaric oxygen therapy** provided to an individual with a severe and prolonged neurological disorder are expenses eligible for the tax credit for medical expenses, where a competent person attests that the individual has a severe and prolonged mental or physical impairment for the purposes of the application of the non-refundable tax credit respecting a severe and prolonged mental or physical impairment.

Moreover, as part of his Budget Speech of February 23, 2005, the federal Minister of Finance proposed that, for 2005 and subsequent taxation years, certain expenses be added to the list of expenses giving entitlement to the non-refundable medical expense tax credit. Québec's tax legislation and regulations will also be amended to incorporate these additions.

Other legislative amendments will affect expenses incurred after April 21, 2005, for **medical, paramedical or dental services provided for purely cosmetic purposes**. Such expenses will no longer be considered eligible expenses for the purposes of the non-refundable tax credit for medical expenses. Purely cosmetic services such as liposuction, facelifts, Botox injections and teeth whitening will no longer give entitlement to tax assistance.

Lastly, the tax legislation will provide that the portion of all expenses incurred for **glasses frames**, by a taxpayer or the taxpayer's spouse after April 21, 2005, will be limited to \$200 per person. The cap on glasses frames will apply separately to each person for whom a taxpayer or the taxpayer's spouse acquired glasses during the period taken into account in the calculation of the tax credit.

The tax legislation and regulations will be amended to incorporate the federal measures announced on February 23, 2005, with a view to tightening **expenses incurred for renovations or alterations to a dwelling** or for devices designed to assist people in walking, considering that such expenses are also medical expenses for the purposes of the Québec tax system.

As of the 2005 taxation year, **private health services plans** that afford moderate coverage of expenses not giving entitlement to the non-refundable tax credit for medical expenses may qualify as private health services plans if their main purpose is to cover eligible expenses.

Lastly, the tax legislation will be amended, as of the 2005 taxation year, in regard to the definition of "**practitioner**." The definition is used, in particular, to determine whether expenses paid to a person for medical, paramedical or dental services constitute eligible medical expenses.

For further information, see page 13 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.

Improvement to the refundable tax credit for medical expenses

The maximum amount of this credit will be raised from \$543 to \$750 as of the 2005 taxation year. The \$750 limit will continue to be automatically indexed, beginning in 2006.

The minimum amount of earned income required for the purposes of the refundable tax credit for medical expenses will be indexed automatically as of the 2006 taxation year.

For further information, see page 19 in [Additional Information on the Budgetary Measures](#), published by the Ministère des Finances.



Application of the tax system to the Québec parental insurance plan

As of the 2006 taxation year, amounts other than excluded amounts, payable by an individual as an **employee** premium or a premium in respect of employment will be included in the individual's total eligible contributions for the year for the purposes of determining the supplementary amount used in the calculation of the basic personal tax credit.

Similarly, premiums payable by **employers** to the parental insurance plan will be deductible in the calculation of their income.

Moreover, the tax treatment of premiums payable by **self-employed workers** in regard to their business income will take into account the fact that the applicable rate for determining the premiums will exceed the rate for determining employee premiums, given that self-employed workers are their own employer.

Lastly, benefits paid under the parental insurance plan must be included in the calculation of the beneficiary's income for the taxation year in which the benefits are received, and will be subject to source deductions.

For further information, see page 20 in *[Additional Information on the Budgetary Measures](#)*, published by the Ministère des Finances.



Other measures

Adjustment and clarification regarding the public utilities tax

For further information, see page 119 in *[Additional Information on the Budgetary Measures](#)*, published by the Ministère des Finances.

Easing of requirements for investment by tax-advantaged funds

For further information, see page 121 in *[Additional Information on the Budgetary Measures](#)*, published by the Ministère des Finances.

Introduction of a basic salary as the starting point for determining various employer contributions

For further information, see page 129 in *[Additional Information on the Budgetary Measures](#)*, published by the Ministère des Finances.



Tax on insurance premiums: extension of the deadline for applying a simplification measure

One of the measures contained in the Québec budget of March 30, 2004, provided for the elimination, as of June 1, 2004, of the presumption that the individual insurance of persons which is incidental in a combined insurance contract (an insurance contract encompassing personal insurance and damage insurance) is damage insurance (see the [article](#) on this subject in the issue for the third quarter of 2004). However, in May 2004, the deadline for applying this measure was extended. Elimination of the presumption applies to a combined insurance contract entered into after February 28, 2005.

In the application of this measure, the term "to enter into" also means "to take effect." The elimination of the presumption described above applies to a combined insurance contract that was entered into or that took effect after February 28, 2005. It also applies where such a contract is renewed or modified after February 28, 2005.



In your interest

GST

Prescribed interest rates are adjusted quarterly to reflect market trends. Penalties and interest related to the GST are compounded daily. The tables below show the annualized interest rates and penalty rates for the quarterly periods from July 1, 2004, to June 30, 2005.

Period	Interest (%)	Penalty rate (%)
2004		
July 1 - Sept. 30	2.3870	6
Oct. 1 - Dec. 31	2.3870	6
2005		
Jan. 1 - March 31	2.4333	6
April 1 - June 30	2.4066	6

Act respecting the Québec sales tax, and other specific statutes

The following is a list of interest rates respecting refunds payable by and debts owed to Revenu Québec, for the quarterly periods from July 1, 2004, to June 30, 2005.

2004		
July 1 - Sept. 30	Refunds	1.25
	Debts	7
Oct. 1 - Dec. 31	Refunds	1.25
	Debts	7
2005		
Jan. 1 - March 31	Refunds	1.50
	Debts	7
April 1 - June 30	Refunds	1.65
	Debts	7

The penalty rates are:

- 7% of the amount to be paid or remitted further to the application of a fiscal law, where the amount is no more than seven days late
- 11% of the amount to be paid or remitted further to the application of a fiscal law, where the amount is no more than 14 days late
- 15% in all other cases

For further information, consult the section on [interest rates](#).