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THE QUÉBEC **ECONOMIC PLAN**

**ADDITIONAL
INFORMATION
2016-2017**



Budget 2016-2017
Additional Information 2016-2017

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1. MEASURES CONCERNING INDIVIDUALS

1.1 Acceleration of the plan to reduce the health contribution with a view to eliminating it in 2018

Currently, an adult who resides in Québec at the end of a year¹ is generally required to pay a health contribution for that year, unless his or her income for the year is equal to or less than \$18 570. Adjusted based on income, the health contribution can be up to \$100 for low-income taxpayers, \$200 for middle-class taxpayers and \$1 000 for high-income taxpayers.

To reduce the tax burden on individuals, it was announced as part of Budget Speech 2015-2016 that the health contribution would be eliminated in 2017 for low-income taxpayers, and that it would be reduced gradually for all other taxpayers as of 2017 and eliminated in 2019.²

This plan to reduce the health contribution and ultimately eliminate it in 2019 will be replaced by a reduction plan that will provide tax relief as of 2016 for almost all taxpayers liable for payment of the health contribution and lead to the elimination of the contribution in 2017 for lower-income taxpayers and in 2018 for all other taxpayers.

More specifically, for 2016, the health contribution payable by an adult who is resident in Québec at the end of the year, other than an exempt individual, will be:

- if the adult's income for the year is greater than \$18 570 but does not exceed \$41 265, equal to the lesser of \$50 and 5% of the amount by which the adult's income for the year exceeds \$18 570;
- if the adult's income for the year is greater than \$41 265 but does not exceed \$134 095, equal to the lesser of \$175 and the aggregate of \$50 and 5% of the amount by which the adult's income for the year exceeds \$41 265;
- if the adult's income for the year is greater than \$134 095, equal to the lesser of \$1 000 and the aggregate of \$175 and 4% of the amount by which the adult's income for the year exceeds \$134 095.

¹ For the purposes of the rules governing liability for the health contribution, an individual is deemed to be resident in Québec at the end of a year where, for the purposes of the *Taxation Act*, the individual is deemed to have been resident in Québec throughout the year, unless the individual is deemed to have been resident in Québec because he or she sojourned in Québec in the year for a period of, or periods the total of which is, 183 days or more and was ordinarily resident outside Canada.

² MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.5-A.6.

For 2017, the health contribution payable by an adult who is resident in Québec at the end of the year, other than an exempt individual, will be:

- if the adult's income for the year is greater than the amount obtained after indexing, for 2017, the threshold of \$41 265 but does not exceed the amount obtained after indexing, for 2017, the threshold of \$134 095, equal to the lesser of \$70 and 5% of the amount by which the adult's income for the year exceeds the amount obtained after indexing, for 2017, the threshold of \$41 265;
- if the adult's income for the year is greater than the amount obtained after indexing, for 2017, the threshold of \$134 095, equal to the lesser of \$800 and the aggregate of \$70 and 4% of the amount by which the adult's income for the year exceeds \$134 095 thus indexed.

The following table illustrates the gradual reduction of the health contribution for the years preceding its elimination.

TABLE A.1

Illustration of the gradual reduction of the health contribution for 2016 and 2017
(dollars)

Adult's income ⁽¹⁾		Health contribution		
Greater than	Without exceeding	2016 before budget	2016 after budget	2017
—	18 570.00	—	—	—
18 570.00	41 265.00	0.01 to 100.00	0.01 to 50.00	—
41 265.00	134 095.00	100.01 to 200.00	50.01 to 175.00	0.01 to 70.00
134 095.00	—	200.01 to 1 000.00	175.01 to 1 000.00	70.01 to 800.00

(1) The income brackets indicated do not take into account the fact that the thresholds will be automatically indexed on January 1, 2017.

As of 2018, the *Act respecting the Régie de l'assurance maladie du Québec* will no longer require adults to pay a health contribution.

Under the existing legislation, two of the three situations under which an adult may be considered an exempt individual concern the financial situation of the individual or the individual's household. Consequently, since the health contribution will be eliminated for all low-income adults as of 2017, only an adult exempt from income tax for 2017 under subparagraph *a*, *b*, *c* or *f* of the first paragraph of section 96 of the *Tax Administration Act* will be considered an exempt individual for that year.

Moreover, the Québec income tax source deduction table and the formulas for calculating source deductions will be changed as of July 1, 2016, in order to reflect the reduction of the health contribution granted as of 2016.

Individuals who are required to pay their income tax in instalments may adjust any instalment payment due after March 31, 2016, in accordance with the usual rules, to take into account the effects of the new reduction plan leading to the elimination of the health contribution.

1.2 Introduction of the RénoVert tax credit: a temporary refundable tax credit for eco-friendly renovations

To stimulate the economy in the short term by supporting jobs in the residential renovation sector and promote sustainable development, the RénoVert tax credit, a new refundable tax credit for carrying out eco-friendly home renovations, will be introduced on a temporary basis.

Capped at \$10 000, financial assistance under the tax credit will correspond to 20% of the portion, in excess of \$2 500, of qualified expenditures paid by an individual before October 1, 2017, to have eco-friendly renovation work carried out.

Briefly, the RénoVert tax credit is for individuals who have a qualified contractor carry out recognized eco-friendly renovation work on their principal place of residence or a cottage under an agreement entered into after the day of the budget speech and before April 1, 2017.

Financial assistance under this tax credit may be combined, as applicable, with that offered for energy-efficient home renovations under the Rénoclimat³ program administered by the Ministère de l'Énergie et des Ressources naturelles.

Renovation work eligible for the RénoVert tax credit is work that has a positive energy or environmental impact and that meets recognized standards in the field. Decarbonizing the residential sector is the focus of most of such work.

□ Determination of the tax credit

An individual who resides in Québec at the end of December 31 of a particular taxation year before the 2018 taxation year may claim, for that year, a refundable tax credit for recognized eco-friendly renovation work carried out on a particular eligible dwelling owned by the individual, in an amount that is:

- if the particular taxation year is the 2016 taxation year, equal to the lesser of \$10 000 and 20% of the amount by which the aggregate of the individual's qualified expenditures for the year in relation to the eligible dwelling exceeds \$2 500;

³ The normative framework of this program is available at www.efficaciteenergetique.gouv.qc.ca/en/my-home/renoclimat/.

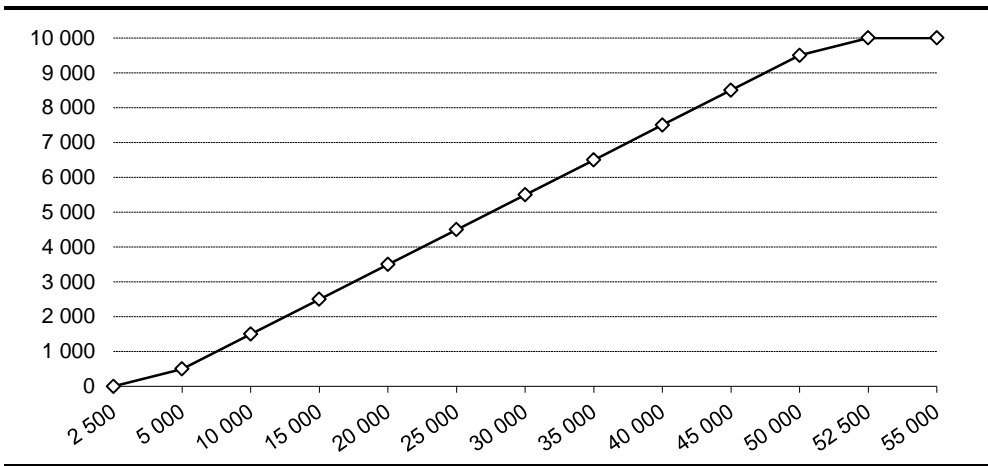
- if the particular taxation year is the 2017 taxation year, equal to the lesser of the following amounts:
 - 20% of the amount by which the aggregate of the individual's qualified expenditures for the year in relation to the eligible dwelling exceeds the lesser of \$2 500 and the amount by which \$2 500 exceeds the aggregate of the individual's qualified expenditures for the 2016 taxation year in relation to the eligible dwelling,
 - the amount by which \$10 000 exceeds the aggregate of the amounts that, in relation to the eligible dwelling, were obtained for the purposes of the RénoVert tax credit for the 2016 taxation year by the individual or by any other person with whom the individual owned the dwelling.

For greater clarity, for the purposes of the RénoVert tax credit, an individual who dies or ceases to be resident in Canada in a particular taxation year will be deemed to be resident in Québec at the end of December 31 of that year, if the individual was resident in Québec immediately before dying or on the last day the individual was resident in Canada, as the case may be.

The following chart illustrates the tax assistance that may be provided to an individual for eco-friendly renovation work carried out in respect of an eligible dwelling owned by the individual, depending on the amount of the individual's qualified expenditures.

CHART A.1

Amount of the RénoVert tax credit on the basis of the qualified expenditures paid in relation to an eligible dwelling
(dollars)



However, to receive the RénoVert tax credit for a particular taxation year, an individual must enclose, with his or her tax return for the year, an information return, using the prescribed form, indicating, for example, the description of the work done, its cost, the registration number assigned under the *Act respecting the Québec sales tax* to the contractor who did the work or, if there is no such number, the contractor's business number or social insurance number and, if applicable, the licence number issued to the contractor.

Supporting documents (bid, invoices, etc.) must be kept for the purposes of subsequent audit by Revenu Québec, in accordance with the rules for preserving supporting documents, relative to an application for tax relief, established by the *Tax Administration Act*.⁴

Moreover, where more than one individual is entitled to the RénoVert tax credit for work done in relation to the same eligible dwelling that they jointly own, the total of the amounts indicated by each of them in their tax return must not exceed the amount that would have been allowed if, in the case where the individuals acquired their title of ownership at the same time, only one of them was entitled to the tax credit for the year and, otherwise, only the individual with the older title of ownership, or one of them if many of them hold such a title, was entitled to the tax credit for the year. If there is no agreement among the individuals, the Minister will determine the amount that each of them may claim.

❑ Eligible dwelling

For the purposes of the RénoVert tax credit, a particular eligible dwelling of an individual means a dwelling located in Québec, other than an excluded dwelling, whose construction was completed before January 1, 2016 and of which the individual is the owner (or co-owner) at the time the eco-friendly renovation expenditures are incurred and that constitutes, at that time, either the individual's principal place of residence, provided the dwelling is an individual house,⁵ a permanently installed manufactured home or mobile home, an apartment in an immovable under divided co-ownership (condominium) or a dwelling in a multiple-unit residential building, or a winterized cottage that is normally occupied by the individual.

In addition, the eligible dwelling of an individual will be deemed to include the land on which it stands and the portion of the adjacent land that may reasonably be considered to facilitate the use and enjoyment of the dwelling.

⁴ In accordance with the rules established, supporting documents concerning tax relief must generally be preserved for six years after the last year to which they relate.

⁵ A house will be considered to be an individual house if it is detached, semi-detached or a row house.

However, no adjoining or incidental structure of the dwelling, apart from an adjoining garage,⁶ will be considered to be part of an individual's eligible dwelling.

■ **Excluded dwelling**

An individual's dwelling will be considered an excluded dwelling if, before the recognized eco-friendly renovation work begins, the dwelling is the object of:

- a notice of expropriation or a notice of intention to expropriate;
- a reserve for public purposes;⁷ or
- a prior notice of the exercise of a hypothecary right registered in the registry office or any other procedure calling the individual's right of ownership of the dwelling into question.

■ **Clarifications regarding certain dwellings**

■ **Intergenerational house**

For any period included between the date of the budget speech and April 1, 2017 throughout which an individual is the owner of an intergenerational house⁸ constituting the individual's principal place of residence, each of the independent dwellings in the house will be deemed to be an individual house constituting the individual's principal place of residence if the individual so elects on the prescribed form.

In the event that an intergenerational house constitutes the principal place of residence of many individuals who are the owners of the house, the election made by one of them will be considered to have been made by all the other co-owners.

■ **Manufactured home or mobile home**

A dwelling that is a manufactured home or a mobile home will be considered to be permanently installed only if:

- it is set on permanent foundations;

⁶ To that end, a garage will be considered to be adjoining a dwelling if it shares, in whole or in part, a wall with the dwelling or if its roof is connected to the dwelling.

⁷ Essentially, the main objective of a reserve for public purposes is to prohibit, from the date it is established, development of an immovable that is to be subsequently expropriated. A reserve for public purposes generally prohibits any construction, improvement or addition on the immovable affected by it, except repairs necessary to prevent deterioration.

⁸ An intergenerational house generally means an individual house in which an independent dwelling has been fitted out, allowing a number of generations of the same family to live together while preserving their privacy. This type of dwelling is also known as a multigenerational or bi-generation home.

- it is served by a waterworks and sewer system, by an artesian well and a septic tank, or by a combination of these as necessary for the supply of drinking water and the drainage of waste water; and
- it is permanently connected to an electrical distribution system.

❑ Recognized eco-friendly renovation work

Briefly, eco-friendly renovation work recognized for the purposes of the tax credit will pertain to insulation, sealing, doors that access to the exterior, windows, and heating, air conditioning, water heating and ventilation systems, as well as to water quality (unless the eligible dwelling is not the individual's principal place of residence) and soil quality, provided the work relates to existing parts of an individual's eligible dwelling. The complete list of eco-friendly renovation work and energy or environmental standards that must be met by the work is included at the end of this subsection.⁹

However, eco-friendly renovation work on an individual's eligible dwelling may be recognized only if the work is awarded to a contractor under the terms of an agreement entered into after the day of the budget speech and before April 1, 2017 (hereinafter, the "renovation agreement") by the individual¹⁰ or by a person who, at the time the agreement is entered into, is the individual's spouse, another owner of the dwelling or the spouse of the other owner. At the time the agreement is entered into, the contractor must be a person or a partnership with an establishment in Québec, other than a person who is an owner of the dwelling or who is the spouse of one of the owners of the dwelling.

In addition, where the execution of such work requires a licence issued under the *Building Act*, the contractor to whom execution of the work has been awarded must, at the time of executing the work, hold an appropriate licence issued, as the case may be, by the Régie du bâtiment du Québec, the Corporation des maîtres électriciens du Québec or the Corporation des maîtres mécaniciens en tuyauterie du Québec and, if necessary, hold the licence security.

Moreover, the work must be carried out in compliance with federal, provincial and municipal legislation and regulations and with the policies applicable depending on the type of intervention.

⁹ For greater clarity, recognized eco-friendly renovation work includes necessary site restoration work.

¹⁰ For the purposes of this measure, if the individual's eligible dwelling is located in an immovable under divided co-ownership, the agreement may be entered into by the immovable's syndicate of co-owners.

❑ Qualified expenditures

For the purposes of the tax credit, an individual's qualified expenditures for a particular taxation year in relation to a particular eligible dwelling of the individual will be equal to the aggregate of the expenditures attributable to the execution of recognized eco-friendly renovation work stipulated in a renovation agreement, provided the expenditures were paid after the date of the budget speech and before January 1, 2017, where the particular taxation year is 2016, and after December 31, 2016 and before October 1, 2017, where the particular taxation year is 2017, by the individual or the individual's legal representative, or by a person who is the individual's spouse at the time of payment of the expenditures, or by any other individual who, at the time the expenditures are incurred, owns the eligible dwelling with the individual, and provided the expenditures are not considered excluded expenditures.

More specifically, the expenditures attributable to the execution of recognized eco-friendly renovation work stipulated in a renovation agreement in relation to an individual's eligible dwelling will correspond to:

- the cost of the licences needed to execute the work, including the cost of studies done to obtain the licences;
- the cost of services supplied by the contractor to carry out the work, including, if applicable, the related goods and services tax and the Québec sales tax;
- the cost of movable property that enters into the execution of the work, including, if applicable, the related goods and services tax and the Québec sales tax, provided the movable property was acquired after the date of the budget speech from the contractor or from a merchant with a registration number assigned under the *Act respecting the Québec sales tax*¹¹ and meets, where required, the energy or environmental standards set forth in the list of eco-friendly renovation work.

However, for the purposes of determining the amount of an individual's qualified expenditures for a particular taxation year, the individual may include an amount regarding the provision of services attributable to the renovation work only if the contractor certifies, using a prescribed form, that the goods entering into the execution of the work meet, where required, the energy or environmental standards set forth in the list of eco-friendly renovation work.

¹¹ In that respect, a merchant will be deemed to hold a registration number assigned under the *Act respecting the Québec sales tax* if the merchant, being a small supplier within the meaning of section 1 of the Act, is not a registrant for the purposes of the Act.

In addition, should the renovation agreement not bear solely on recognized eco-friendly renovation work, the contractor must give the individual a written statement showing the breakdown of the cost of goods and services supplied by the contractor for the different types of work done.

If an individual's eligible dwelling is located in an immovable under divided co-ownership, the individual's qualified expenditures will include any expenditure paid by the syndicate of co-owners, up to the individual's share of the expenditure, where:

- the expenditure would be a qualified expenditure of the syndicate of co-owners if the syndicate were an individual and the immovable, an eligible dwelling of the individual; and
- the syndicate of co-owners provides to the individual, on the prescribed form, the information concerning the work and the amount of the individual's share of the expenditure.

❑ Excluded expenditure

An excluded expenditure for a year for the purposes of the RénoVert tax credit will mean any portion of an individual's expenditures attributable to the carrying out of recognized eco-friendly renovation work stipulated in a renovation agreement in relation to an eligible dwelling of the individual that is:

- used to finance the cost of the recognized eco-friendly renovation work;
- attributable to goods or services supplied by a person not at arm's length with the individual or one of the other owners of the dwelling, unless the person holds a registration number assigned under the *Act respecting the Québec sales tax*;
- incurred to acquire property used by the individual, under a lease contract, before it was acquired;
- deductible in the calculation of an individual's business or property income for the year or any other year;
- included in the capital cost of depreciable property;
- included for the purposes of calculating costs or expenditures giving rise to another tax credit¹² claimed by the individual or another person in a tax return filed under Québec's legislation for the year or any other year.

¹² Such as the refundable or non-refundable tax credit for medical expenses.

❑ Refund or other form of assistance

For the purpose of calculating the RénoVert tax credit, an individual's qualified expenditures must be reduced by, as the case may be, the amount of any government assistance other than the assistance allowed under the Rénoclimat program,¹³ any non-government assistance,¹⁴ any refund or any other form of assistance including an indemnity paid under an insurance contract that the individual or any other person—other than the person acting as the contractor for the execution of the work—received or is entitled to receive in relation to the execution of recognized renovation work stipulated in a renovation agreement entered into in relation to an eligible dwelling of the individual.

TABLE A.2

List of recognized eco-friendly renovation work

A. Work relating to the envelope of a dwelling

A1 Insulation of the roof, exterior walls, foundations and exposed floors

- The insulation materials used for insulation must be certified GREENGUARD or ÉcoLogo. In addition, the insulating value must satisfy the following standards:⁽¹⁾
 - insulation of the attic: the insulating value achieved must be at least R-41.0 (RSI 7.22);
 - insulation of the flat roof or cathedral ceiling: the insulating value achieved must be at least R-28.0 (RSI 4.93);
 - insulation of the exterior walls: the increase in the insulating value must be at least R-3.8 (RSI 0.67);
 - insulation of the basement (including the header area): for the walls, the insulating value achieved must be at least R-17.0 (RSI 3.0) while, for the header area, the insulating value achieved must be at least R-20.0 (RSI 3.52);
 - insulation of the crawl space (including the header area): for the exterior walls (including the header area), the insulating value achieved must be at least R-17.0 (RSI 3.0), while for the floor area above the crawl space, the insulating value achieved must be at least R-24.0 (RSI 4.23);
 - insulation of exposed floors: the insulating value achieved must be at least R-29.5 (RSI 5.20).

A2 Sealing

- Water-proof sealing of the foundations.
- Air sealing of the envelope of the dwelling or of a portion of it (walls, doors, windows, skylights, etc.).

A3 Installation of doors or windows

- Replacement or addition of doors, windows and skylights with ENERGY STAR qualified models for the climate zone where the dwelling is located.

¹³ See note 3.

¹⁴ For example, the assistance provided by Gaz Métro Limited Partnership for the replacement of a natural gas central heating appliance or a manufacturer's rebate.

TABLE A.2 (cont.)

List of recognized eco-friendly renovation work**A4 Installation of a green or white roof**

- Installation of a living roof.⁽²⁾
- Replacement of a flat roof or a roof with a slope of under 2 in the vertical rise for every 12 units horizontally (2:12) or at 16.7% by a reflecting roof.⁽³⁾

B. Work relating to the mechanical systems of the dwelling**B1 Heating system**

- Replacement of an indoor wood-burning system or appliance with one of the following:
 - an indoor wood-burning system or appliance that complies with the CSA-B415.1-10 standard or the 40 CFR Part 60 Subpart AAA standard of the Environmental Protection Agency (EPA) of the United States on wood-burning appliances. However, appliances not tested by the EPA are not eligible unless they have been certified under the CSA-B415.1-10 standard;
 - an indoor pellet-burning appliance (including stoves, furnaces and boilers that burn wood, corn, grain or cherry pits);
 - an indoor masonry heater.
- Replacement of a solid fuel-fired outdoor boiler with an outdoor wood-burning heating system that complies with the CAN/CSA-B415.1 standard or the Outdoor Wood-fired Hydronic Heater program of the Environmental Protection Agency (EPA) (OWHH Method 28, phase 1 or 2), provided the capacity of the new system is equal to or smaller than the capacity of the one it replaces.
- Installation of an ENERGY STAR qualified central split or ductless mini-split air-source heat pump including an outdoor unit and at least one indoor head per floor (excluding the basement) that has an Air-Conditioning, Heating, and Refrigeration Institute (AHRI) number and satisfies the following minimum requirements:
 - a Seasonal Energy Efficiency Ratio (SEER) of 15.0;
 - an Energy Efficiency Ratio (EER) of 12.5;
 - a Heating Seasonal Performance Factor (HSPF) of 7.4 for region V;
 - a heating capacity of 12 000 Btu/h.
- Installation of a geothermal system certified by the Canadian GeoExchange Coalition (CGC). A CGC-certified company must install the heat pump in accordance with the CAN/CSA-C448-16 standard. The CGC must also certify the system after installation.
- Replacement of the heat pump of an existing geothermal system. A company certified by the Canadian GeoExchange Coalition (CGC) must install the heat pump in accordance with the CAN/CSA-C448-16 standard.
- Replacement of a heating oil system with a system using propane or natural gas, provided the new system uses one of the following heating appliances:
 - an ENERGY STAR qualified furnace with an annual fuel utilization efficiency (AFUE) of at least 95% and equipped with a brushless direct current (DC) motor;
 - a zero-clearance furnace with an AFUE of at least 95%, if the dwelling is a mobile home;
 - an ENERGY STAR qualified boiler with an AFUE of at least 90%.

TABLE A.2 (cont.)

List of recognized eco-friendly renovation work

B1 Heating system (cont.)

- Replacement of a heating oil, propane or natural gas system with a system using electricity.
- Replacement of a heating oil, propane, natural gas or electricity system with a qualified integrated mechanical system (IMS) that is CSA-P.10-07 certified and achieves the premium performance rating.⁽⁴⁾
- Installation of solar thermal panels that comply with the CAN/CSA-F378-11 standard.
- Installation of combined photovoltaic-thermal solar panels that comply with the CAN/CSA-C61215-08 and CAN/CSA-F378-11 standards.

B2 Air conditioning system

- Replacement of a window air-conditioning unit or central air-conditioning system with an ENERGY STAR qualified central split or ductless mini-split air-conditioning system including an outdoor unit and at least one indoor head per floor (excluding the basement), provided the appliance has an Air-Conditioning, Heating, and Refrigeration Institute (AHRI) number and satisfies the following minimum requirements:
 - a Seasonal Energy Efficiency Ratio (SEER) of 15.0;
 - an Energy Efficiency Ratio (EER) of 12.5.
- Replacement of a central air-conditioning system with an ENERGY STAR qualified central split or ductless mini-split air-source heat pump including an outdoor unit and at least one indoor head per floor (excluding the basement) that has an Air-Conditioning, Heating, and Refrigeration Institute (AHRI) number and satisfies the following minimum requirements:
 - a Seasonal Energy Efficiency Ratio (SEER) of 15.0;
 - an Energy Efficiency Ratio (EER) of 12.5;
 - a Heating Seasonal Performance Factor (HSPF) of 7.4 for region V;
 - a heating capacity of 12 000 Btu/h.

B3 Water heating system

- Replacement of an oil-fired water heater with a water heater using propane or natural gas, provided the new water heater is one of the following:
 - an ENERGY STAR qualified instantaneous water heater that has an energy factor (EF) of at least 0.90;
 - a condensing storage-type water heater that has a thermal efficiency of at least 95%.
- Replacement of a heating oil, propane or natural gas water heater with a water heater using electricity.
- Installation of a solar hot water system that provides a minimum energy contribution of seven gigajoules per year (GJ/yr) and is CAN/CSA-F379-09 certified, provided the system appears on the CanmetENERGY Performance Directory of Solar Domestic Hot Water Systems.
- Installation of a drain-water heat recovery system.
- Installation of solar thermal panels that comply with the CAN/CSA-F378-11 standard.
- Installation of combined photovoltaic-thermal solar panels that comply with the CAN/CSA-C61215-08 and CAN/CSA-F378-11 standards.

TABLE A.2 (cont.)

List of recognized eco-friendly renovation work**B4 Ventilation system**

- Installation of an ENERGY STAR qualified heat recovery ventilator or energy-recovery ventilator certified by the Home Ventilating Institute (HVI) and listed in Section 3 of their product directory (Certified Home Ventilating Products Directory). In addition, where installation makes it possible to replace an older ventilator, the new appliance must be more efficient than the older one.

C. Water conservation and quality (unless the eligible dwelling is a cottage⁽⁵⁾)

- Installation of an underground rain water recovery tank.
- Construction, renovation, modification or rebuilding of a system for the discharge, collection and disposal of waste water, toilet effluents or grey water in accordance with the *Regulation respecting waste water disposal systems for isolated dwellings*.
- Restoration of a buffer strip, in accordance with the requirements of the Protection Policy for Lakeshores, Riverbanks, Littoral Zones and Floodplains.⁽⁶⁾

D. Soil quality

- Decontamination of fuel oil-contaminated soil, in accordance with the requirements of the Soil Protection and Contaminated Sites Rehabilitation Policy.⁽⁷⁾

E. Other renewable energy devices

- Installation of photovoltaic solar panels that comply with the CAN/CSA-C61215-08 standard.
- Installation of a domestic wind turbine that complies with the CAN/CSA-C61400-2-08 standard.

(1) For the purposes of these standards, the R factor is a symbol representing the thermal resistance of materials in imperial units. The factor is called the RSI value in the international measurement system.

(2) For greater clarity, a living roof is a roof that is partially or completely covered in vegetation. It is comprised of a waterproofing membrane, a drainage membrane and a growing medium to protect the roof and sustain vegetation.

(3) Authorized covers are white materials, materials painted white or covered with a reflective coating or white ballast, or materials with a solar reflectance index (SRI) of at least 78 in accordance with the manufacturer's specifications.

(4) This system encompasses the domestic heating, ventilation and heat recovery functions.

(5) An eligible dwelling will not be considered a cottage if the dwelling is an individual house or a permanently installed manufactured home or mobile home constituting the individual's principal place of residence.

(6) This policy is applied in accordance with municipal zoning and urban planning bylaws.

(7) This policy is published by Les Publications du Québec and available on the website of the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques, at www.mddelcc.gouv.qc.ca/sol/terrains/politique-en/.

1.3 Enhancement, for households without children, of the refundable tax credit attributing a work premium

To support and value work effort and encourage people to give up last resort financial assistance and enter the labour market, the tax system grants low- and middle-income households a work premium in the form of a refundable tax credit.

Two work premiums are granted under the tax credit. The first one is for households whose capacity for employment is not severely limited (hereinafter, the “general work premium”), while the second one is for households whose capacity for employment is severely limited.¹⁵ In addition, a supplement for long-term recipients giving up last resort financial assistance may be combined with either of the work premiums.¹⁶

In general, the tax credit is for any individual who is resident in Québec at the end of a year, provided the individual, at that time, has recognized status (such as Canadian citizenship or permanent resident status) and is a person of full age, an emancipated minor within the meaning of the *Civil Code of Québec*, the spouse of another individual, or the father or mother of a child with whom the individual resides.

However, no amount is granted under the tax credit to a person who, at the end of the year, was confined to a prison or similar institution and had been so confined during the year for one or more periods totalling more than six months, a person in respect of whom tax relief was received for the year or a person with no children who was a full-time student during the year.

The work premiums granted under the tax credit are reduced on the basis of family income and determined by taking into account eligible work income and household composition.

The maximum amount that may be granted as a work premium for a year is equal to the amount obtained by applying, to the amount representing the amount by which the lesser of the household’s eligible work income¹⁷ and the reduction threshold applicable to the household exceeds excluded work income, the rate set in its regard.

The reduction based on family income is 10% for each dollar of a household’s family income that exceeds the applicable reduction threshold.

¹⁵ Generally, to claim this work premium for a particular year, an individual or the individual’s eligible spouse must have received a social solidarity allowance during the year or one of the five previous years under the Social Solidarity Program established by the *Individual and Family Assistance Act*. An individual who is entitled, or an individual’s eligible spouse who is entitled, to the tax credit for severe and prolonged impairment in physical or mental functions for a particular year may also claim this work premium.

¹⁶ This supplement, set at \$200 per month, is granted on an individual basis for a maximum of 12 consecutive months.

¹⁷ Briefly, a household’s eligible work income means the income derived by an individual and, as the case may, the individual’s eligible spouse, from an office or employment or from the carrying on of a business.

The reduction thresholds of the work premiums are adjusted annually. Briefly, the reduction threshold applicable to a typical household for a particular year corresponds to the higher of the reduction threshold applicable to the household for the previous year and the amount established for the year as the cut-off threshold of the Social Assistance Program,¹⁸ in the case of the general work premium, and as the cut-off threshold of the Social Solidarity Program,¹⁹ in the case of the adapted work premium for households whose capacity for employment is severely limited.

To further increase the incentive to work for households without children, the rate set for the purpose of calculating the maximum amount of the work premiums for these categories of households will be raised by 2 percentage points as of 2016. The rate will therefore increase from 7% to 9%, in the case of the general work premium, and from 9% to 11%, in the case of the adapted work premium for households whose capacity for employment is severely limited.

The following table illustrates the effects, for households without children, of the increase in the rate used to calculate the 2016 general work premium on the maximum premium and the cut-off threshold at which the premium becomes nil.

TABLE A.3

Illustration of the effects for 2016 of the increase in the rate used to calculate the general work premium for households without children
(dollars)

	Person living alone			Couple without children		
	Before budget	After budget	Difference	Before budget	After budget	Difference
Excluded work income	2 400.00	2 400.00	—	3 600.00	3 600.00	—
Premium rate	7%	9%	2%	7%	9%	2%
Maximum premium ⁽¹⁾	564.48	725.76	161.28	881.30	1 133.10	251.80
Reduction						
– Reduction threshold	10 464.00	10 464.00	—	16 190.00	16 190.00	—
– Rate of reduction	10%	10%	—	10%	10%	—
Cut-off threshold ⁽²⁾	16 108.80	17 721.60	1 612.80	25 003.00	27 521.00	2 518.00

(1) The maximum work premium was determined by applying the rate of the premium to the amount corresponding to the amount by which the reduction threshold exceeds excluded work income.

(2) Family income as of which a household is no longer eligible for the work premium.

¹⁸ This last resort financial assistance program is provided for in the *Individual and Family Assistance Act*. The program seeks to provide financial assistance of last resort to persons whose capacity for employment is not severely limited and encourage them to engage in activities promoting their entry on the labour market or their social and community participation.

¹⁹ This last resort financial assistance program is provided for in the *Individual and Family Assistance Act*. While providing financial assistance of last resort to persons whose capacity for employment is severely limited, the program seeks to foster the inclusion and social participation of such persons and their active contribution to society.

The following table illustrates the effects, for households without children, of the increase in the rate used to calculate the 2016 adapted work premium for households whose capacity for employment is severely limited on the maximum premium and the cut-off threshold at which the premium becomes nil.

TABLE A.4

Illustration of the effects for 2016 of the increase in the rate used to calculate the adapted work premium for households, without children, whose capacity for employment is severely limited
(dollars)

	Person living alone			Couple without children		
	Before budget	After budget	Difference	Before budget	After budget	Difference
Excluded work income	1 200.00	1 200.00	—	1 200.00	1 200.00	—
Premium rate	9%	11%	2%	9%	11%	2%
Maximum premium ⁽¹⁾	1 094.94	1 338.26	243.32	1 641.96	2 006.84	364.88
Reduction						
– Reduction threshold	13 366.00	13 366.00	—	19 444.00	19 444.00	—
– Rate of reduction	10%	10%	—	10%	10%	—
Cut-off threshold ⁽²⁾	24 315.40	26 748.60	2 433.20	35 863.60	39 512.40	3 648.80

(1) The maximum work premium was determined by applying the rate of the premium to the amount corresponding to the amount by which the reduction threshold exceeds excluded work income.

(2) Family income as of which a household is no longer eligible for the work premium.

To better support low-income workers, Revenu Québec may, subject to certain conditions, pay in advance, on a monthly basis, part of the work premium to which a household believes it is entitled for a year.

For a work premium to be paid in advance during a particular year, the amount of the work premium to which a household believes it is entitled for the year must be over \$500, in the case of households with children, and over \$300, in other cases.

When all of the conditions for receiving advance payments of a work premium during a year have been met, Revenu Québec pays during the year 50% of the estimated amount of the work premium, in the case of households with children, and 75% of the estimated amount, in other cases.

However, to narrow the gap as much as possible between the tax assistance and expenses relating to the transition to the labour market, the full amount of the supplement for long-term recipients giving up last resort financial assistance may be paid in advance on a monthly basis. Exceptionally, the request for advance payments must be sent to a local employment centre of the Ministère du Travail, de l'Emploi et de la Solidarité sociale, which, after examination, forwards the request to Revenu Québec.

Nevertheless, because of the costs involved, transitioning to the labour market can be more difficult not only for long-term recipients who give up last resort financial assistance, but also for all recipients gradually entering the labour market.

Given that the existing rules for advance payment of a work premium are not always in line with the reality of such persons, special terms and conditions will be introduced so that the amounts paid in advance to recipients of last resort financial assistance are more in keeping with their work effort.

The Ministère du Travail, de l'Emploi et de la Solidarité sociale will play a key role in the application of these terms and conditions, as it will be the body responsible for sending to Revenu Québec the requests for advance payments of recipients of last resort financial assistance, and for determining the amount that Revenu Québec must pay in advance to such persons for any month during which they received last resort financial assistance.

Briefly, once a recipient of last resort financial assistance earns work income in excess of the amount of excluded work income for the purpose of calculating the work premium that may be claimed by the recipient for a year,²⁰ the Ministère du Travail, de l'Emploi et de la Solidarité sociale determines the amount of advance payments in respect of any excess amount of work income reported to it by the recipient, by applying the rate of the premium to the amount corresponding to 90% of the income thus reported for a particular month.

The total of the amounts thus determined for a year in respect of a recipient may not in any case exceed the maximum amount of the work premium for the year for the category of household (person living alone, couple without children, single-parent family or couple with children) to which the recipient belongs.

In the coming months, the Ministère du Travail, de l'Emploi et de la Solidarité sociale will work with Revenu Québec on the implementation of the new terms and conditions for advance payments applicable to recipients of last resort financial assistance.

Given the time required to adapt administrative systems, these new terms and conditions will apply as of January 1, 2017.

1.4 Greater access to the tax shield

The personal income tax system includes a series of measures designed to assist low- and middle-income households. To identify such households, the notion of family income—that is, an individual's income and, where applicable, the income of the individual's spouse—is often invoked, since the notion provides a good picture of a household's aggregate income for a year.

However, the use of this indicator may reduce the incentive for certain persons to work more, since any increase in their family income could lead to a reduction, or even the loss, of their tax benefits.

²⁰ In the case of a person newly accepted as a recipient of last resort financial assistance, work income earned during the period of the year preceding the person's acceptance will not be taken into consideration.

Thus, to render work effort more appealing, it was announced as part of Budget Speech 2015-2016 that a new refundable tax credit, called the “tax shield,” would be implemented as of the 2016 taxation year.²¹

The purpose of the tax shield is to offset, further to an increase in work income, a part of the loss of the socio-fiscal transfers designed to incentivize work, namely, the refundable tax credit attributing a work premium—the general work premium or the adapted work premium for persons whose capacity for employment is severely limited—and the refundable tax credit for childcare expenses.

For the purposes of the tax shield, the maximum increase in eligible work income relative to the previous year that may be taken into account for each member of a household is currently set at \$2 500.

To enhance the benefits of the tax shield, the maximum increase in eligible work income relative to the previous year will be raised from \$2 500 to \$3 000 as of the 2016 taxation year for each member of a household.

1.5 Improved tax treatment of gifts

To foster, among other things, the funding of charitable organizations and organizations dedicated to amateur sports and culture and communications, and to stimulate gifts of certain property, such as works of art and property having undeniable ecological value, the tax system grants, to individuals who make gifts to registered charities or other qualified donees, a non-refundable tax credit for gifts.

This tax credit is calculated on the basis of two rates. For the first \$200 in gifts included in the calculation of the tax credit, the applicable rate is 20%, while the rate applicable to the amount in excess of the first \$200 is 24%.

The tax credit for gifts is calculated taking into account the eligible amount of each of an individual's gifts. As a rule, the eligible amount of a gift corresponds to the amount by which the fair market value of a particular gift exceeds the amount of the advantage in respect of the gift.

Exceptionally, an increase is granted in the eligible amount of certain cultural or agricultural gifts.

For the purpose of calculating the tax credit for a particular year, the aggregate of all amounts each of which is the eligible amount of a gift is generally limited to 75% of the donor's income for the year.

However, any portion of gifts made in a year that cannot be taken into account in the calculation of the tax credit for gifts may be carried forward five years—ten years for gifts of property having undeniable ecological value made after February 10, 2014—subject to, for each year a portion of gifts is carried forward, the application of the rule limiting the aggregate of the eligible amounts of gifts to, in general, 75% of the donor's income.

²¹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.12-A.16.

❑ Elimination of the limit related to income

Under the existing tax legislation, there are many exceptions to the rule limiting the aggregate of all amounts each of which is the eligible amount of a gift to 75% of the donor's income for the year for which the tax credit is claimed.

In certain cases, the 75% limit is inapplicable or replaced by a limit equal or up to 100% of the donor's income.

Gifts not subject to any income-related limit are gifts of cultural property or similar property, gifts having undeniable ecological value, and gifts of musical instruments made to a recognized educational institution.

Replacement of the limit of 75% of the donor's income by a limit of 100% applies to gifts made or deemed to have been made in the year of the donor's death or in the previous year, and to gifts made to a religious order by a member of such an order who has taken a vow of perpetual poverty.

Gifts of capital property are the gifts that give rise to an increase in the 75% limit up to the donor's income.

Currently, less than one-third of 1% of individuals who claim the tax credit for gifts find themselves having to carry a portion of their gifts in a particular year forward to one of the subsequent five years due to the application of the 75% limit to their income. Low- or middle-income individuals account for virtually all of these cases.

To take into account the fact that the 75% limit is applied very seldomly and that the determination of the tax credit for gifts has become complex because of the many exceptions to the limit that have been brought in over the years, the income-related limits for the purpose of calculating the tax credits for gifts will be eliminated.

More specifically, the tax legislation will be amended to provide that, as of the 2016 taxation year:

- an individual's qualified total charitable gifts for a particular taxation year will correspond to the individual's total charitable gifts for the year for the purpose of calculating the tax credit for gifts;
- an individual's qualified total patronage gifts for a particular taxation year will correspond to the individual's total patronage gifts for the year for the purpose of calculating the tax credit for cultural patronage;
- the eligible amount of an individual's large cultural donation for a particular taxation year must be determined without taking into account the individual's revenue for the year for the purpose of calculating the additional tax credit of 25% for a first large cultural donation.

❑ Partial increase of the tax credit rate

The terms for calculating the tax credit for gifts will be changed, as of the 2017 taxation year, for individuals whose marginal tax rate is higher than 24%.

More specifically, the tax legislation will be amended to provide that the maximum amount an individual may claim as a tax credit for gifts for a particular taxation year will be equal to the total of the following amounts:

- 20% of the lesser of \$200 and the individual's total eligible gifts for the year;
- 25.75% of the lesser of the following amounts:
 - the amount by which the individual's total eligible gifts for the year exceed \$200,
 - the amount by which the individual's taxable income for the year exceeds the threshold for the year of the fourth tax bracket of the personal income tax table;
- 24% of the amount by which the individual's total eligible gifts for the year exceed the aggregate of \$200 and the amount of such gifts to which the rate of 25.75% applies.

1.6 Lower age of eligibility for the tax credit for experienced workers

To encourage experienced workers to remain in or re-enter the labour market, the tax system grants to older workers a tax credit that can eliminate the income tax payable on part of their eligible work income that exceeds the first \$5 000.

Briefly, for the purposes of this tax credit, an individual's eligible work income for a year is the remuneration included in the calculation of 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 he or she carries on either alone or as a partner actively engaged in the business exceeds his or her losses for the year from such businesses, and the grants received by the individual in the year to carry on research or any similar work.

To encourage a greater number of experienced workers to remain in or re-enter the labour market, it was announced as part of Budget Speech 2015-2016 that several changes would be made to the tax credit for experienced workers as of taxation year 2016.²²

Essentially, over a period of two years, these changes lower the age of eligibility for the tax credit from 65 to 63 and gradually increase the maximum amount of eligible work income on which the tax credit is calculated until it reaches \$10 000, when fully implemented, for all workers age 65 and over.

²² MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.6-A.12.

Also, to ensure that this measure is directed primarily toward persons who may be influenced by such an incentive to remain in or re-enter the labour market, the tax credit became reducible based on work income. However, for workers who were age 65 or over in 2015, the tax credit may not be lower than the credit that would be determined in their respect if the maximum amount of eligible work income remained the same as in 2015 and the tax credit were not reducible based on work income.

To further encourage experienced workers to remain in the labour market, the age of eligibility for the tax credit will be lowered, as of the 2018 taxation year, to 62 years of age, the average retirement age of Quebecers. For this new category of workers, the maximum amount of eligible work income on which the tax credit will be calculated is \$4 000.

The following table shows the adjustment of the tax credit for experienced workers for 2016 and subsequent taxation years.

TABLE A.5

**Adjustment of maximum eligible work income above the first \$5 000
based on age**
(dollars)

Age of experienced worker	Maximum amount of eligible work income		
	2016	2017	As of 2018
65 years or over	6 000	8 000	10 000
64 years	4 000	6 000	8 000
63 years	—	4 000	6 000
62 years	—	—	4 000

More specifically, the tax legislation will be amended to provide that an individual who is resident in Québec at the end of a particular taxation year subsequent to 2017 or, if the individual dies in the year, on the date of his or her death, may deduct, in calculating his or her income tax otherwise payable for the year on account of the tax credit for experienced workers, an amount equal to the amount determined using the following formula:

$$[A \times B \times (1 - C)] - 0.05 (D - E)$$

For the purposes of this formula:

- the letter A represents the rate applicable for the particular taxation year to the first taxable income bracket of the personal income tax table;²³

²³ The rate currently applicable to this bracket is 16%.

- the letter B represents:
 - if the individual has reached 66 before the end of the particular year or by the date of his or her death, the amount by which the individual's eligible work income for the year attributable to that year exceeds \$5 000, to a maximum of \$10 000,
 - if the individual turns 65 by the end of the particular year or by the date of his or her death, the aggregate of the following amounts, to a maximum of \$10 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was under age 65 exceeds \$5 000, to a maximum of \$8 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 65 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which he or she was under age 65,
 - if the individual turns 64 by the end of the particular year or by the date of his or her death, the aggregate of the following amounts, to a maximum of \$8 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was under age 64 exceeds \$5 000, to a maximum of \$6 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 64 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which he or she was under age 64,
 - if the individual turns 63 by the end of the particular year or by the date of his or her death, the aggregate of the following amounts, to a maximum of \$6 000:
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was under age 63 exceeds \$5 000, to a maximum of \$4 000,
 - the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 63 exceeds \$5 000, less the amount of the individual's eligible work income attributable to the period of the year throughout which he or she was under age 63,
 - if the individual turns 62 by the end of the particular year or by the date of his or her death, the amount by which the individual's eligible work income attributable to the period of the year throughout which he or she was age 62 exceeds \$5 000, to a maximum of \$4 000,

- in all other cases, zero;
- the letter C represents the rate used for the particular taxation year for the purpose of calculating the deduction for workers;
- the letter D represents the individual's eligible work income for the particular taxation year;
- the letter E represents the applicable reduction threshold for the particular taxation year for the purposes of calculating the tax credit for a person living alone, for age and for retirement income.

However, where an individual has reached 65 before the end of 2015 (an individual born before January 1, 1951), the amount of the tax credit the individual may claim for the particular taxation year may not be less than the amount determined using the following formula:

$$\begin{array}{l}
 \text{The rate applicable for the} \\
 \text{year to the first taxable} \\
 \text{income bracket of the} \\
 \text{personal income tax table}
 \end{array}
 \times
 \begin{array}{l}
 \$4\,000 \text{ or the amount by} \\
 \text{which the individual's} \\
 \text{eligible work income for} \\
 \text{the year exceeds \$5\,000,} \\
 \text{whichever is lower}
 \end{array}
 \times
 \begin{array}{l}
 \text{The amount by which 1} \\
 \text{exceeds the rate used for} \\
 \text{the year for the purpose of} \\
 \text{calculating the deduction} \\
 \text{for workers}
 \end{array}$$

Moreover, consequential amendments will be made to the rules applicable to the determination of the tax credit for experienced workers for a calendar year subsequent to 2017 in which an individual becomes bankrupt, in order to take into account the fact that the age of eligibility for the tax credit will be lowered to 62 years of age.

2. MEASURES CONCERNING BUSINESSES

2.1 Reduction of the Health Services Fund contribution rate for all small and medium-sized businesses

Under the *Act respecting the Régie de l'assurance maladie du Québec*, an employer must pay a contribution to the Health Services Fund in respect of the wages that the employer pays to the employer's employee who reports for work at the employer's establishment in Québec, that the employer is deemed to pay to the employee or that the employer pays in respect of the employee, or to the employer's employee to whom those wages, if the employee is not required to report for work at an establishment of the employer, are paid, deemed to be paid or paid in respect of the employee from such an establishment in Québec.

Currently, the contribution payable for a year to the Health Services Fund must be calculated at a rate of 4.26%, unless the employer is a specified employer for the year and the employer's total payroll²⁴ is less than \$5 million.

Briefly, a specified employer for a year is an employer²⁵ that has an establishment in Québec in the year and that is not the State, the government of another province or the Government of Canada, or an employer that, at a particular time in the year, is:

- a mandatory body of the State, the government of another province or the Government of Canada;
- a municipality or a mandatory body of a municipality;
- a municipal or public body performing a function of government or a mandatory body of such a body;
- a corporation, commission or association exempt from income tax under section 985 of the *Taxation Act*.

In general, the applicable rate for the purposes of calculating the contribution to the Health Services Fund payable by a specified employer is 2.7% if the employer's total payroll for the year is \$1 million or less. The rate rises linearly to 4.26% where the specified employer's total payroll is between \$1 million and \$5 million.

²⁴ The term "total payroll" is defined in the first paragraph of section 33 of the *Act respecting the Régie de l'assurance maladie du Québec*. Essentially, an employer's total payroll for a year means the aggregate of the wages paid or deemed to be paid in the year by the employer and by any other employer with which the employer is associated at the end of the year and that, at that time, carries on a business in which it ordinarily employs, for all or part of the year, at least one employee, whether full-time or part-time.

²⁵ For the purposes of the employer contribution to the Health Services Fund, a partnership may be considered an employer, on the same basis as a legal person or an individual.

However, as of 2015, employers in the primary and manufacturing sectors are no longer subject to this rule. To encourage small and medium-sized businesses (SMBs) in the sectors most susceptible to competition, employers operating in those sectors were granted a reduced Health Services Fund contribution rate.²⁶

For eligible employers whose total payroll is equal to or less than \$1 million, the applicable rate decreased from 2.7% to 1.6%. As for eligible employers whose total payroll is between \$1 million and \$5 million, they became subject to a rate varying from 1.6% to 4.26%.

Moreover, as part of the 2015-2016 budget speech, it was announced that the tax burden of SMBs in other sectors of activity would be gradually reduced. In that respect, it was expected that the Health Services Fund contribution rate for employers in sectors other than the primary and manufacturing sectors would gradually decrease from 2.7% to 2.25% over a three-year period beginning in 2017 if their total payroll is \$1 million or less. A gradual reduction in the contribution rate was also granted to employers having a total payroll between \$1 million and \$5 million.²⁷

To take into account the fact that, for SMBs, the contribution to the Health Services Fund by employers constitutes a burden that may harm investment and job creation, particularly when businesses are in the start-up phase or unable to generate profits, a new plan to reduce the Health Services Fund contribution rates for all SMBs will be implemented as of 2017.

□ SMBs in the primary and manufacturing sectors

To encourage, among others things, exports, eligible specified employers will be able to claim an additional reduction in the Health Services Fund contribution rate as of 2017.

An eligible specified employer is any employer that, for a particular year, is a specified employer whose total payroll for the year is less than \$5 million, provided more than 50% of the employer's total payroll for the year is attributable to activities in the agriculture, forestry, fishing and hunting sector, the mining, quarrying and oil and gas extraction sector and the manufacturing sector that are grouped under codes 11, 21 or 31 to 33 of the North American Industry Classification System (NAICS).²⁸

The Health Services Fund contribution rate for eligible specified employers having a total payroll of \$1 million or less will gradually decrease from 1.6% to 1.45% over a five-year period beginning in 2017. Employers having a total payroll between \$1 million and \$5 million will also see a gradual reduction in their contribution rate.

²⁶ MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2014-11*, December 2, 2014, pp. 3-6.

²⁷ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, p. A.45-A.48.

²⁸ The description of these codes is available on the Statistics Canada website: www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVDPPage1&db=imdb&dis=2&adm=8&TVD=118464.

The following table shows the impact of the gradual reduction of the Health Services Fund contribution rate for SMBs in the primary and manufacturing sectors.

TABLE A.6

Illustration of the impact of the gradual reduction of the Health Services Fund contribution rate for SMBs in the primary and manufacturing sectors
(per cent)

	Total payroll				
	\$1 million or less	\$2 million	\$3 million	\$4 million	\$5 million or more
Current rates	1.60	2.27	2.93	3.60	4.26
Rates for 2017	1.55	2.23	2.91	3.58	4.26
Rates for 2018 to 2020	1.50	2.19	2.88	3.57	4.26
Rates as of 2021	1.45	2.15	2.86	3.56	4.26

More specifically, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to stipulate that, for the purposes of calculating the Health Services Fund contribution payable for a particular year by an eligible specified employer, the rate applicable to wages subject to the contribution for the year will correspond to:

— for 2017, one of the following rates:

- 1.55%, where the employer's total payroll for the year is \$1 million or less,
- the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$0.8725\% + \frac{(0.6775\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

— for 2018, 2019 and 2020, one of the following rates:

- 1.50%, where the employer's total payroll for the year is \$1 million or less,
- the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$0.81\% + \frac{(0.69\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

— for any year subsequent to 2020, one of the following rates:

- 1.45%, where the employer's total payroll for the year is \$1 million or less,

- the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$0.7475\% + \frac{(0.7025\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

Where the percentage rate determined by one of the above formulas has more than two decimals, only the first two are to be used and the second decimal must be increased by one unit if the third is greater than 4.

☐ SMBs in the service and construction sectors

To further reduce the tax burden of SMBs in sectors other than the primary and manufacturing sectors, the Health Services Fund contribution rate for employers in those sectors having a total payroll is equal to or less than \$1 million will gradually decrease from 2.7% to 2% over a five-year period beginning in 2017. Employers having a total payroll between \$1 million and \$5 million will also see a gradual reduction in their contribution rate.

The following table shows the impact of the gradual reduction of the contribution rate for SMBs in sectors other than the primary and manufacturing sectors.

TABLE A.7

Illustration of the impact of the gradual reduction of the Health Services Fund contribution rate for SMBs in sectors other than the primary and manufacturing sectors (per cent)

	Total payroll				
	\$1 million or less	\$2 million	\$3 million	\$4 million	\$5 million or more
Current rates	2.70	3.09	3.48	3.87	4.26
Rates for 2017	2.50	2.94	3.38	3.82	4.26
Rates for 2018	2.30	2.79	3.28	3.77	4.26
Rates for 2019	2.15	2.68	3.21	3.73	4.26
Rates for 2020	2.05	2.60	3.16	3.71	4.26
Rates as of 2021	2.00	2.57	3.13	3.70	4.26

More specifically, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to stipulate that, for the purposes of calculating the Health Services Fund contribution payable for a particular year subsequent to 2016 by a specified employer other than an eligible specified employer, the rate applicable to wages subject to the contribution for the year will correspond to:

- for 2017, one of the following rates:
 - 2.50%, where the employer's total payroll for the year is \$1 million or less,

- the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$2.06\% + \frac{(0.44\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26%, otherwise;
- for 2018, one of the following rates:
 - 2.30%, where the employer's total payroll for the year is \$1 million or less,
 - the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$1.81\% + \frac{(0.49\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$
 - 4.26%, otherwise;
 - for 2019, one of the following rates:
 - 2.15%, where the employer's total payroll for the year is \$1 million or less,
 - the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$1.6225\% + \frac{(0.5275\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$
 - 4.26%, otherwise;
 - for 2020, one of the following rates:
 - 2.05%, where the employer's total payroll for the year is \$1 million or less,
 - the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$1.4975\% + \frac{(0.5525\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$
 - 4.26 %, otherwise;
 - for any year subsequent to 2020, one of the following rates:
 - 2%, where the employer's total payroll for the year is \$1 million or less,
 - the percentage rate determined by the following formula, where the employer's total payroll for the year is over \$1 million but under \$5 million:

$$1.435\% + \frac{(0.565\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$
 - 4.26%, otherwise.

Where the percentage rate determined by one of the above formulas has more than two decimals, only the first two are to be used and the second decimal must be increased by one unit if the third is greater than 4.

❑ Consequential amendments

To bolster the capacity to innovate of Québec SMBs while fostering the creation of specialized jobs, a temporary reduction of the contribution to the Health Services Fund was implemented further to the budget speech of June 4, 2014, for full-time jobs created in the natural and applied sciences sector.²⁹

Briefly, this reduction, applicable until 2020, is granted regarding the increase in payroll attributable to the hiring of specialized employees by a specified employer having a total payroll of less than \$5 million.

Currently, to determine the amount of the reduction to which a specified employer may be entitled for a year, the reduction rate to be used is 1.6% where the employer is an eligible specified employer and 2.7% where the employer is not an eligible specified employer, provided the employer's total payroll for the year is \$1 million or less. Where the employer's total payroll for the year exceeds \$1 million, the reduction rate to be used is the rate determined by a formula based on the employer's Health Services Fund contribution rate for the year.

To take into account the new plan to reduce the Health Services Fund contribution rates for SMBs to be implemented beginning 2017, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to stipulate that, for the purposes of calculating, for a year subsequent to 2016, the temporary reduction of the Health Services Fund contribution for a specified employer having a payroll of \$1 million or less, the rate of reduction will be equal to:

- in the case of an eligible specified employer, 1.55% for 2017 and 1.50% for 2018 to 2020;
- in other cases:
 - 2.50% for 2017,
 - 2.30% for 2018,
 - 2.15% for 2019,
 - 2.05% for 2020.

²⁹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, pp. 8-14.

2.2 Adjustment to the refocusing of the SBD on corporations in the primary and manufacturing sectors

The general corporate tax rate in Québec is currently 11.9%.

However, Canadian-controlled private corporations with paid-up capital of \$10 million or less enjoy a tax rate reduction of 3.9 percentage points on the first \$500 000 of annual income—the business limit³⁰—from an eligible business, which lowers the tax rate from 11.9% to 8% on the first \$500 000 of income. This reduced tax rate is known as the small business deduction (SBD).

As part of the budget speech of March 26, 2015, changes were announced to the SBD, in particular a refocusing of the deduction on corporations in the primary and manufacturing sectors by adding qualification criteria.³¹

These changes were put in place to support corporations that invest in their growth and are to apply to a taxation year beginning after December 31, 2016.

Based on the qualification criteria announced at that time, a qualified corporation for a taxation year was intended to be:

- a corporation that employs in its business throughout the year more than three full-time employees, or if any other corporation with which the corporation is associated provides to it financial, administrative, maintenance, managerial or other similar services in the year and the corporation would normally use more than three full-time employees if those services had not been provided; or
- a corporation in the primary or manufacturing sector.

At that time, it was expected that if, for a taxation year, a corporation met the qualification criterion concerning the minimum number of employees, it would be able to claim the maximum SBD rate applicable for the taxation year.

In addition, a corporation in the primary or manufacturing sector that failed to meet the qualification criterion concerning the minimum number of employees would nevertheless be able to claim and SBD according to its level of activity in those sectors.

Since these changes were announced, various stakeholders have pointed out that many corporations could be penalized by the qualification criterion concerning the minimum number of employees, even though globally they employ many more than three full-time employees. This might be the case, for example, for a corporation that employs several dozen people throughout the year, but almost all of them on a part-time basis.

³⁰ The \$500 000 business limit is gradually reduced for corporations with paid-up capital between \$10 million and \$15 million and falls to zero for corporations with paid-up capital of \$15 million or more.

³¹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, p. A.37-A.44.

Consequently, the qualification criterion concerning the minimum number of employees will be replaced by a qualification criterion concerning the minimum number of hours worked.

❑ Replacement of the criterion concerning the minimum number of employees by a criterion concerning the hours worked

As indicated above, the qualification criterion concerning the minimum number of employees will be replaced by a qualification criterion concerning the minimum number of hours worked.

More specifically, a corporation will meet the qualification criterion for a taxation year concerning the minimum number of hours worked if, as applicable:

- during the taxation year, its employees worked at least 5 500 hours;
- during the previous taxation year, the hours worked by its employees and the employees of the corporations with which it is associated total at least 5 500 (hereinafter, the “previous year consolidated basis test”).

In respect of this criterion, the following rules will apply:

- a maximum of 40 hours per week per worker may be considered;
- the hours worked must be paid at the time the SBD is claimed;
- the hours worked for a corporation by a person participating in its body of shareholders³² will also be counted, without regard to whether they are remunerated;
- the 5 500 hours applying to the current year will be based on a complete taxation year and this threshold will be reduced proportionally in the case of a shorter fiscal period; this proportional reduction will not be applied for the previous year consolidated basis test;
- concerning the previous year consolidated basis test, the corporation must consider the taxation years ended during the calendar year preceding the year during which the corporation’s taxation year ends;
- each corporation in a group of associated corporation must count the hours worked by its employees or a person participating in its body of shareholders; more specifically, the hours worked by a subcontractor for a corporation may not be counted by the corporation, but may be counted by the subcontractor.

To prevent a corporation from losing its entire SBD where the number of hours falls slightly below the required threshold, a transitional mechanism will be provided. Thus, the SBD rate applicable to a corporation for a taxation year will be reduced linearly between 5 500 hours and 5 000 hours, and will fall to zero at 5 000 hours.

³² Such participation in the body of shareholders of a corporation may be direct or indirect.

❑ Corporation in the primary or manufacturing sector

A corporation in the primary or manufacturing sector may claim an SBD at the highest SBD rate obtained, using either the qualification criterion concerning the minimum number of hours worked or the qualification criterion based on its level of activity in the primary or manufacturing sector.

Le SBD rate applicable to such a corporation in the primary or manufacturing sector based on the qualification criterion according to its level of activity in those sectors will depend on the proportion of its activities in the primary sector or the manufacturing and processing sector.

Activities in the primary sector are those attributable to activities in the agriculture, forestry, fishing and hunting sector, or the mining, quarrying, and oil and gas extraction sector that are grouped under codes 11 and 21 of the North American Industry Classification System (NAICS).³³ Manufacturing and processing activities are activities which, under the *Income Tax Regulations*, constitute qualified activities for the purposes of determining manufacturing and processing profits.

"Corporation in the primary or manufacturing sector" for a particular taxation year means a corporation at least 25% of whose activities consist in activities in the primary sector or the manufacturing and processing sector.

The labour cost will be the item considered in determining the proportion of a corporation's activities attributable to the primary sector or the manufacturing and processing sector.³⁴

A corporation in the primary or manufacturing sector whose proportion of activities in the primary or manufacturing and processing sector for a particular taxation year is 50% or more will be able to claim the maximum SBD rate applicable for the taxation year.

Where the proportion for a particular taxation year is between 50% and 25%, the SBD rate a corporation in the primary or manufacturing sector may claim for the taxation year based on the qualification criterion according to its level of activity in those sectors will be reduced linearly.

❑ Application date

Replacement of this qualification criterion will apply as of the coming into effect of the refocusing of the SBD, that is, for a taxation year beginning after December 31, 2016.

³³ See note 28.

³⁴ See subsection 2.1.2 in section A of *Additional Information 2015-2016* concerning details of the conditions for determining the proportion of a corporation's activities in the primary sector or the manufacturing and processing sector and the conditions for the linear reduction of the SBD rate that a corporation may claim.

2.3 Conditions for easing of the tax provisions applicable to the transfer of family businesses

As part of the budget speech of March 26, 2015, an easing of the tax provisions applicable to the transfer of family businesses was announced.³⁵

The primary objective of this easing is to reduce the undesirable effects of the integrity rules aimed at preventing surplus stripping in conjunction with a transfer of a family business.

Essentially, these integrity rules do not allow an individual to benefit fully from the capital gains exemption on the disposition of qualified shares to a corporation with which the individual is not dealing at arm's length, even though the sale of shares to such a corporation is standard procedure when transferring a business.

This problem is not new since this situation has existed since the introduction of the capital gains exemption more than 30 years ago. Several elements must be considered in seeking an acceptable solution, particularly in terms of fairness and predictability.

This is the context in which the technical conditions related to this easing were initially announced, along with the type of corporations that would be affected, essentially corporations in the primary and manufacturing sectors.

However, the exact type of transfer that might qualify for the easing remained to be defined. The Ministère des Finances made a commitment at that time to announce the necessary missing elements for the implementation of the proposed changes within a year following the initial announcement, to be applied to share dispositions after December 31, 2016.

The Ministère des Finances has therefore conducted consultations over the past year with the stakeholders concerned by this question.

In the course of these consultations, highly diverse viewpoints were expressed—all of them, however, relevant and useful—thereby helping in the search for a solution equally acceptable from the viewpoint of the tax system's integrity, neutrality or fairness.

□ Technical conditions, type of corporations covered and qualification criteria

At the time of the announcement on March 26, 2015, several decisions had been made concerning the technical conditions of the easing as well as the type of corporations that would be affected, essentially corporations in the primary and manufacturing sectors. These decisions are maintained integrally and will therefore not be reiterated in the present announcement.³⁶

³⁵ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A113-A117.

³⁶ See subsection 5.1 in section A of *Additional Information 2015-2016* in the subsections "Technical amendments," "Qualified share of the primary and manufacturing sectors" and "Corporation in the primary or manufacturing sector."

Furthermore, it had then been pointed out that for reasons of integrity it was not desirable for the easing to apply to all types of dispositions and that the qualification criteria selected should take into consideration several elements, including reduction of the seller's involvement, in any way whatever, in the corporation whose shares are being disposed of.

This basis on which it remained to define what a transfer of a qualified family business would be.

It was then expected that qualification criteria would be developed and that an agency would issue a qualification certificate confirming compliance with those qualification criteria.

However, the consultations conducted by the Ministère des Finances over the past year have shown that it was preferable to select criteria having an objective character, ideally based on easily determinable and verifiable factual elements, as opposed to more subjective criteria whose interpretation could be far too uncertain.

Seven qualification criteria were finally selected. Because of their objective character, it will not be necessary for an agency to issue a qualification certificate confirming compliance with these criteria, which will be set forth in the *Taxation Act*.

□ Qualification criteria for a transfer of a qualified family business

As it was mentioned in the announcement on March 26, 2015, these amendments will apply solely to a disposition of qualified shares of corporations in the primary and manufacturing sectors carried out in conjunction with a transfer of a qualified family business.

This easing will result in the non-application of the integrity rule respecting a consideration other than shares, as indicated in the announcement of March 26, 2015.

Briefly, this integrity rule applies where a taxpayer, other than a corporation, (hereinafter, the “taxpayer”) disposes of shares (hereinafter, the “shares concerned”) of any class of the capital stock of a particular corporation (hereinafter, the “corporation in question”) to another corporation (hereinafter, the “acquirer”) with which it is not dealing at arm's length and where, immediately after the disposition, the corporation in question is connected, within the meaning of the Regulation,³⁷ to the acquirer.³⁸

For the application of the easing, a transfer of a family business will be designated as qualifying, in respect of a taxpayer, where the following seven qualification criteria are met.

■ Criterion 1

The taxpayer disposing of the shares concerned is an individual other than a trust.

³⁷ Regulation respecting the *Taxation Act*, s. 517.1R1.

³⁸ The exact wording of this rule is found in section 517.1 of the *Taxation Act*.

■ Criterion 2

The taxpayer (or the taxpayer's spouse), while he or she held the shares concerned, played an active role in a business carried on by the corporation in question, or by a corporation in which the corporation in question held a "substantial interest" according to the meaning given to this expression in subsection 191(2) of the *Income Tax Act*, during the 24-month period immediately preceding the disposition of the shares concerned.

In respect of this second criterion, the following rules will apply:

- where the taxpayer is, immediately before the disposition of the shares concerned, unable to play such an active role due to an illness, the 24-month period during which the taxpayer must play an active role in a business ends on the day preceding the day on which the inability began;
 - more specifically, this rule allowing for compliance with this criterion by a shareholder will indirectly benefit the shareholder's inactive spouse;
- in the case of the death of the taxpayer who met this criterion immediately before his or her death,³⁹ the shares concerned that the taxpayer held at the time of death in the corporation in question will then be deemed to meet this criterion for the 24-month period immediately following the day of the taxpayer's death;
 - more specifically, the death of a taxpayer who does not himself or herself play an active role does not entitle the taxpayer's active spouse to take advantage of this exception in respect of the shares concerned held by the spouse at the time of the taxpayer's death;
- for any period during which a taxpayer played an active role in a business and all or substantially all of the assets used in the business are transferred to a corporation, the taxpayer will be deemed, for the period preceding the transfer, to have played an active role in a business carried on by that corporation.

■ Criterion 3

The taxpayer (or the taxpayer's spouse) does not, after the disposition of the shares concerned, play an active role in a business actively carried on by the acquirer or by the corporation in question (or by a corporation in which the corporation in question holds a substantial interest), except for:

- an active role aimed at fostering a harmonious transfer of the knowledge possessed by the taxpayer (or the taxpayer's spouse) of a business carried on by such a corporation to the other persons active in carrying on the business;
or

³⁹ Regardless of whether this criterion was met directly, because the taxpayer himself or herself had taken an active part, or indirectly, because the taxpayer's spouse had taken such an active part.

- an active role in a business carried on by such a corporation, if substantially all of the income of the business is not derived from the sale, rental or development, as applicable, of property similar to, or the providing of services similar to, those of a business carried on by the corporation in question, the acquirer or any corporation in which the corporation in question or the acquirer held an interest, directly or indirectly.

In respect of the first exception to this third criterion, the following rules will apply:

- for any calendar year or portion of a calendar year included in the transitional period and for which the taxpayer (or the taxpayer's spouse) plays an active role, the taxpayer's remuneration (or that of the taxpayer's spouse), in any form whatsoever, for that interest must not be greater than the amount corresponding to the "maximum pensionable earnings" under the Québec Pension Plan⁴⁰ applicable to that calendar year, calculated in proportion to the number of days in that period included in that calendar year;
- no period will be considered during which the individual who was supposed to play an active role in carrying on a business, based on the seventh criterion indicated below applicable to a person participating in the acquirer's body of shareholders (or the spouse of such a person), is unable to play such an active role due to an illness or his or her death, if the event causing such an impediment begins or occurs after the disposition of the shares concerned.

■ **Criterion 4**

The taxpayer (or the taxpayer's spouse) does not, during the period beginning one month after the disposition of the shares concerned and ending at the end of a series of operations including the disposition of the shares concerned, have de jure control of the corporation in question or of a corporation in which the corporation in question had a substantial interest, and neither the taxpayer nor the taxpayer's spouse belong to a group of persons having the de jure control of such a corporation, except for:

- a corporation carrying on a business, if substantially all of the income of the business is not derived from the sale, rental or development, as applicable, of property similar to, or the providing of services similar to, those of a business carried on by the corporation in question, the acquirer or any corporation in which the corporation in question or the acquirer held an interest, directly or indirectly;
- a corporation that is not actively carrying on a business.

⁴⁰ *Act respecting the Québec Pension Plan*, s. 40.

■ Criterion 5

The taxpayer (or the taxpayer's spouse) does not, during the period beginning one month after the disposition of the shares concerned and ending at the end of a series of operations including the disposition of the shares concerned, hold, directly or indirectly, common shares of the corporation in question or a corporation in which the corporation in question had a substantial interest, except for common shares in a corporation that is:

- carrying on a business, if substantially all of the income of the business is not derived from the sale, rental or development, as applicable, of property similar to, or the providing of services similar to, those of a business carried on by the corporation in question, the acquirer or any corporation in which the corporation in question or the acquirer held an interest, directly or indirectly;
- not actively carrying on a business.

■ Criterion 6

The total fair market value of all the residual financial interests (in any form whatsoever) held, during the period beginning one month after the disposition of the shares concerned and ending at the end of a series of operations (excluding payment of those residual financial interests) including the disposition of the shares concerned, directly or indirectly, by all of the taxpayers benefiting from the easing (as well as their spouse, even that spouse does not benefit from the easing) in a particular corporation⁴¹ must not be greater than 60% (80% in the case of a farming or fishing business) of the fair market value of the aggregate of the issued shares of a particular corporation (hereinafter, the "initial maximum rate").

In respect of this sixth criterion, the following rules will apply:

- any financial interest in a particular corporation held, directly or indirectly, by a trust in which the taxpayer (or the taxpayer's spouse) has a beneficiary interest⁴² will be deemed to be held by the taxpayer;
- a presumption of the holding of such interest will also apply in respect of any entity (trust, corporation, partnership) in which the taxpayer (or the taxpayer's spouse) holds, directly or indirectly, a financial interest;
- if the same financial interest is deemed to be held by more than one entity, the deemed manner of the holding of such interest giving the taxpayer the highest percentage interest must be applied, but an interest may not be counted double;
- the fair market value of the aggregate of the issued shares of a particular corporation will correspond to the fair market value immediately before the beginning of a series of operations including the disposition of the shares concerned (hereinafter, the "fair market value before disposition");

⁴¹ That is, the corporation in question, the acquirer or any other corporation in which the corporation in question had a substantial interest.

⁴² *Taxation Act*, s. 7.11.1.

- the conditions of repayment or redemption (in the case shares) of such financial interest must provide that no later than ten years after the disposition of the shares concerned, that financial interest will be reduced to 30% (50% in the case of a farming or fishing business) of the fair market value (that is, the value previously used for purposes of compliance with the initial maximum rate) of the aggregate of the issued shares of the particular corporation (hereinafter, the “maximum rate after ten years”);
- the interests in a corporation will be excluded from the calculation of the initial maximum rate, the fair market value before disposition and the maximum rate after ten years if the corporation is:⁴³
 - carrying on a business, if substantially all of the income of the business is not derived from the sale, rental or development, as applicable, of property similar to, or the providing of services similar to, those of a business carried on by the corporation in question, the acquirer or any corporation in which the corporation in question or the acquirer held an interest, directly or indirectly,
 - not actively carrying on a business;
- where this residual interest takes the form of shares of a corporation, the following conditions must be met:
 - the taxpayer may not require redemption of the shares before ten years, except for the portion of the redemption planned and necessary to comply with the maximum rate after ten years,
 - the shares must give entitlement to a cumulative dividend at a rate not exceeding a reasonable rate according to the market,
 - the dividend rate of the shares may in no case be based on a corporation’s level of profitability,
 - the shares must be redeemable at any time at the corporation’s option,
 - the shares may be convertible only into shares or debts that meet these conditions or the conditions, described below, applicable to debts, as applicable;
- where this residual interest takes the form of a debt of the corporation, the following conditions must be met:
 - the taxpayer may not require repayment of the debt before ten years, except for the portion of the repayment planned and necessary to comply with the maximum rate after ten years,
 - the debt must give entitlement to a return not exceeding a reasonable return according to the market,

⁴³ This exclusion applicable to two types of corporations will not apply, however, to an indirect interest held through such corporations in a corporation other than such corporations.

- the rate of return of the debt may in no case be based on a corporation's level of profitability,
- the debt may be repaid with the accrued interest, but without a penalty, at any time at the corporation's option,
- the debt may be convertible only into debt or shares that meet these conditions or the conditions, described above, applicable to shares, as applicable.

■ **Criterion 7**

For the period beginning immediately after the disposition of the shares concerned and ending at the end of a series of operations including the disposition of the shares concerned, at least one person participating in the body of shareholders of the acquirer⁴⁴ (or the spouse of such a person) plays an active role in carrying on the business carried on by the corporation in question or a business carried on by a corporation in which the corporation in question had an interest.

This criterion will not apply for any period during which the individual who was supposed to play an active role in carrying on a business is unable to play such an active role due to an illness or his or her death, if the event causing such an impediment begins or occurs after the disposition of the shares concerned.

□ **Application date**

The budget speech of March 26, 2015, provided that the easing would apply to a disposition of shares occurring after December 31, 2016.

Since all the qualification criteria are now known and no agency will be required to issue qualification certificates, the easing will apply instead to a disposition of shares occurring after the day of the Budget Speech.

2.4 **Implementation of an income-averaging mechanism for forest producers**

To encourage private forest owners to actively manage their forest lands with a view to marketing timber, an income-averaging mechanism will be introduced on a temporary basis.

Briefly, this mechanism will, for the purposes of income tax and the individual contribution to the Health Services Fund, make it possible to average a portion of the income generated by non-retail sales of timber produced in a private forest for a period not exceeding seven years.

⁴⁴ Such participation in the body of shareholders of a corporation may be direct or indirect.

❑ **Income-averaging mechanism for the purposes of calculating income tax**

■ **Deduction in calculating taxable income**

The tax legislation will be amended to stipulate that an eligible individual or a qualified corporation which, at the end of a particular taxation year ending after the date of the budget speech and before January 1, 2021, is either a certified forest producer in respect of a private forest or a member of a qualified partnership that is a certified forest producer in respect of a private forest at the end of the partnership's fiscal period ending in the year may deduct, in calculating taxable income for the year, an amount not exceeding 85% of \$200 000 or of the amount determined according to the following formula, whichever is less:

$$(A - B) + (C - D)$$

For the purposes of this formula:

- the letter A represents the aggregate of the amounts each of which corresponds to the income of the eligible individual or qualified corporation, as applicable, for the taxation year from the individual's or corporation's certified commercial activities for the year in respect of a private forest;
- the letter B represents the aggregate of the amounts each of which corresponds to the loss of the eligible individual or qualified corporation, as applicable, for the taxation year from the individual's or corporation's certified commercial activities for the year in respect of a private forest;
- the letter C represents the aggregate of the amounts each of which corresponds to the share of the eligible individual or qualified corporation, as applicable, in the income of the qualified partnership for its fiscal period ending in the year from the partnership's certified commercial activities for the fiscal period in respect of a private forest;
- the letter D represents the aggregate of the amounts each of which corresponds to the share of the eligible individual or qualified corporation, as applicable, in the loss of the qualified partnership for its fiscal period ending in the year from the partnership's certified commercial activities for the fiscal period in respect of a private forest.

■ **Inclusion in the calculation of taxable income**

An individual or a corporation, as applicable, that has deducted, in calculating the taxable income for a particular taxation year, an amount from certified commercial activities in respect of a private forest will be required to include in calculating taxable income:

- for each of the six taxation years following the particular taxation year, an amount that cannot be less than 10% of the amount so deducted, up to the amount by which the amount so deducted exceeds the aggregate of the amounts each of which is an amount included in the calculation of the taxable income for a previous taxation year in respect of the amount so deducted;

- for the seventh year following the particular year, an amount equal to the amount by which the amount so deducted exceeds the aggregate of the amounts each of which is an amount included in the calculation of the taxable income for a previous taxation year in respect of the amount so deducted.

However, the averaging period will be shortened where, before the end of the sixth year following the year for which an amount was deducted in respect of a private forest, either the forest is disposed of or the individual or corporation, as applicable, ceases to be a member of the partnership that is or was a certified forest producer in respect of the forest.

In such cases, an amount equal to the amount by which the amount deducted in respect of the private forest by the individual or corporation, as applicable, exceeds the aggregate of the amounts each of which is an amount included in calculating the taxable income for a previous taxation year in respect of the amount so deducted must be included in calculating the taxable income of the individual or corporation, as applicable, for the taxation year that is:

- the taxation year during which the individual or corporation, as applicable, disposed of the private forest;
- the taxation year in which the fiscal period of the partnership during which the partnership disposed of the private forest ends; or
- the taxation year in which the individual or corporation, as applicable, ceased to be a member of the partnership that is or was a certified forest producer in respect of the private forest.

■ Eligible taxpayers

An individual will be considered an eligible individual for a particular taxation year if the individual resides in Québec at the end of that year.

A qualified corporation for a particular taxation year is a Canadian-controlled private corporation with paid-up capital, taking into account the paid-up capital of any corporations with which it is associated in the taxation year, is at least \$15 million for its previous taxation year.

For greater clarity, the paid-up capital of a corporation for a particular taxation year must be determined in the same manner as that prescribed for determining the paid-up capital of a corporation for the purposes of calculating the business limit of a Canadian-controlled private corporation.

■ Certified forest producer

An individual, corporation or partnership, as applicable, will be considered to be a certified forest producer at any time in respect of a private forest if the individual, corporation or partnership at that time holds a certificate as a certified forest producer issued under the *Sustainable Forest Development Act* in respect of that private forest.

Briefly, to be certified as a forest producer under the *Sustainable Forest Development Act*, a forest owner must own a forest area of not less than four hectares (10 acres or 12 “arpents carrés”) having a forest management plan that is certified by a forest engineer as complying with the by-laws of the regional agency for private forest development. In addition, in the case of a private forest consisting of a single block of 800 hectares or more, the owner must be a member in good standing of a forest fire protection organization.

■ **Certified commercial activities**

The certified commercial activities of an individual or corporation for a taxation year, or of a partnership for a fiscal period, in respect of a private forest mean the non-retail sales of timber produced in that private forest to a buyer having an establishment in Québec.

■ **Interposed partnerships**

To take into account the possibility of one or more partnerships being interposed between a taxpayer and the partnership that is a certified forest producer in respect of a private forest, rules will be put in place to allow a taxpayer to claim the deduction to which the taxpayer would have been entitled under the income-averaging mechanism if the taxpayer had been directly a member of the partnership.

■ **Integrity measures**

To preserve the integrity of the tax system, rules will be put in place to ensure that an individual who has claimed a deduction in calculating his or her taxable income further to income averaging for forest producers is subject to Québec tax on the averaged income for each of the years included in the averaging period, even if the taxpayer has ceased to reside in Québec.

More specifically, the tax legislation will be amended to stipulate that income earned in Québec and income earned in Canada for a particular taxation year of an individual who did not reside in Canada at any time during the year and who, during the taxation year or during a previous taxation year, was employed in Québec, carried on a business in Québec or disposed of taxable Québec property must be increased by an amount equal to the amount that would have to be included in calculating the individual's taxable income for the year further to income averaging if the individual had been resident in Québec at the end of the taxation year.

The tax legislation will also be amended to stipulate that any individual resident in Canada outside Québec on the last day of a taxation year must, if he or she deducted, during any of the seven previous taxation years, an amount in calculating his or her taxable income further to income averaging for forest producers pay tax on his or her income earned in Québec for the year, as determined under Part II of the *Taxation Act*.

The tax payable by such an individual will be determined according to the rules applicable to the determination of the tax payable by an individual who resides in Canada outside Québec on the last day of a taxation year and who carried on a business in Québec at any time in the year. However, a change will be made in the income of the individual serving as the denominator in the ratio used to determine the tax payable for a particular taxation year, so that the income will be increased by the amount included in calculating the taxable income of the individual for the year further to income averaging.

■ Consequential amendments

According to the current tax rules, individuals who reside in Québec and carry on a business outside Québec in Canada must make a proportional calculation to determine their tax payable on their taxable income. This calculation is based on the ratio between income earned in Québec and income earned in Québec and elsewhere, as established by the tax regulations.

To take into account the implementation of the new income-averaging mechanism for forest producers, the tax regulations will be amended to stipulate that the income earned in Québec and the income earned in Québec and elsewhere of an individual for a particular taxation year must be increased by the amount included in calculating his or her taxable income for the year further to income averaging and reduced by the amount deducted in calculating his or her taxable income for the year further to income averaging.

Moreover, the tax legislation will be amended to stipulate that the amounts included or deducted, as applicable, further to income averaging in calculating the taxable income of an individual for a particular taxation year must be taken into consideration for the purposes of calculating the maximum amount that the individual may deduct for the year as a foreign tax credit.

□ Income-averaging mechanism for the purposes of calculating the individual contribution to the Health Services Fund

Briefly, the *Act respecting the Régie de l'assurance maladie du Québec* provides that any individual who resides in Québec at the end of a particular year must pay a contribution on his or her total income for the year if it exceeds a certain threshold.⁴⁵ This contribution, which is adjusted based on total income, may reach \$1 000.⁴⁶

Certain types of income, however, are excluded from the base for this contribution. This is the case for most employment income and certain government payments, such as the Old Age Security pension and amounts paid as a guaranteed income supplement or spouse's allowance under federal legislation.

⁴⁵ For 2016, the applicable threshold is \$14 440.

⁴⁶ If the individual's total income for 2016 does not exceed \$50 200, the contribution that he or she must pay for the year will be equal to \$150 or 1% of the amount by which the individual's total income for the year exceeds \$14 440, whichever is less. Otherwise, the contribution that the individual must pay for the year will be equal to \$1 000 or the aggregate of \$150 and 1% of the amount by which his or her total income for the year exceeds \$50 200, whichever is less.

To take into account the fact that, for many individuals who are private forest owners, earning income from the sale of timber may result in their being exceptionally required to pay a substantial contribution to the Health Services Fund, measures will be put in place to enable an individual who, for the purposes of the tax system, resorts to the income-averaging mechanism for forest producers to average a portion of his or her income from the sale of timber for the purposes of calculating his or her contribution to the Health Services Fund.

More specifically, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to stipulate that an individual who so chooses may deduct, in calculating his or her total income for a particular year, an amount equal to the amount that he or she deducted for the purposes of the tax system in calculating his or her taxable income for the year under the income-averaging mechanism for forest producers.

However, an individual who makes such a choice for a particular year will be required to include, in calculating his or her total income for each of the seven years following the particular year, an amount equal to the amount that, for the purposes of the tax system, was included in calculating his or her taxable income for that year under the income-averaging mechanism for forest producers.

2.5 Introduction of a deduction for innovative manufacturing corporations

The general corporate tax rate in Québec is currently 11.9%.

However, Canadian-controlled private corporations with paid-up capital of \$10 million or less enjoy a tax rate reduction of 3.9 percentage points on the first \$500 000 of annual income—the business limit⁴⁷—from an eligible business, which lowers the tax rate from 11.9% to 8% on the first \$500 000 of income. This reduction in the tax rate is known as the small business deduction (SBD).

In addition, Québec small and medium-sized manufacturing businesses (SMBs) in the primary and manufacturing sectors may claim an additional deduction on their tax rate of up to 4%.⁴⁸

This additional reduction on the tax rate depends on the proportion of an SMB's activities that consist of primary sector activities and manufacturing and processing activities, and it applies only to the amount on which the SMB may claim the reduced rate of 8% for the taxation year.

Thus, the 8% tax rate for SMBs may be reduced to 4% on their first \$500 000 of income.

Québec's tax system also includes several measures designed to support businesses in their innovation and productivity improvement efforts.

⁴⁷ The \$500 000 business limit is gradually reduced for corporations with paid-up capital between \$10 million and \$15 million and falls to zero for corporations with paid-up capital of \$15 million or more.

⁴⁸ This tax rate deduction will be extended to SMBs in the primary sector only in respect of a taxation year of a corporation beginning after December 31, 2016. See subsection 2.2.

In particular, the refundable tax credits granted by the government for scientific research and experimental development activities (R&D) carried out in Québec contribute to achieving this objective, just like the refundable tax credit for the integration of information technologies that is available to SMBs in the primary and manufacturing sectors.

In order to better support Québec manufacturing corporations in their innovation efforts, a new tax measure will be introduced.

This measure will take the form of a deduction in calculating the taxable income of a qualifying innovative manufacturing corporation.

The deduction for a qualifying innovative manufacturing corporation (hereinafter, the “DIC”) will more specifically target corporations that cannot claim the SBD.

The purpose of the DIC will be to encourage a qualifying innovative manufacturing corporation to develop in Québec the results of R&D work that it carried out in Québec and that led to the granting of a patent, by enabling the corporation to reduce its taxable income for a taxation year by an amount equal to a portion of the value of a qualified patented feature that is integrated into qualified property it sells or rents for the year.

□ Calculation of the DIC

The tax legislation will be amended so that a qualifying innovative manufacturing corporation may deduct, in calculating its taxable income for a taxation year, an amount corresponding to the specified annual percentage of one of the following amounts, whichever is less:

- the total value of all the qualified patented features incorporated into qualified property that the qualified corporation sold or rented in the year; or
- the DIC ceiling.

■ Specified annual percentage

The following table shows the specified annual percentage for 2017-2020 and subsequent years.

TABLE A.8

Specified annual percentage⁽¹⁾ (per cent)

2017	2018	2019	2020	Subsequent years
66.1	65.8	65.5	65.2	65.2

(1) Each percentage will come into effect on January 1 of each of 2017, 2018, 2019 and 2020.

Where a corporation’s taxation year does not coincide with the calendar year, the specified annual percentage applicable for that taxation year straddling two calendar years will be a percentage weighted to reflect the number of days in the taxation year included in each of the two calendar years.

■ DIC ceiling

The DIC ceiling will correspond, for a particular taxation year, to 50% of the net income earned from the sale or rental of the qualified property appearing in the separate accounting that a qualifying innovative manufacturing corporation will be required to keep for that purpose for the year.

For the calculation of the ceiling, where expenses exceed the gross income attributable to qualified property for a taxation year according to the separate accounting, the corporation will be deemed to have earned zero income from the sale or rental of the property.

Thus, subject to the application of the DIC ceiling, the reduction in a qualifying innovative manufacturing corporation's taxable income resulting from the application of the DIC for a taxation year will correspond essentially to an effective tax rate that would equal 4% if it were applied solely to the value of each of the qualified patented features that are incorporated into qualified property sold or rented by the corporation in the year.

For example, if a qualifying innovative manufacturing corporation reported a net income of \$15 million for a taxation year, of which \$7.5 million was attributable to the total value of all the qualified patented features incorporated into one or more eligible properties sold or rented by the corporation in the year, the corporation's tax rate reduction for the year resulting from the DIC would represent a tax savings of \$585 000.

TABLE A.9

Income tax reduction due to the DIC – 2017 (dollars)

	Before Budget 2016-2017	After Budget 2016-2017
Taxable income	15 000 000	15 000 000
Income attributable to qualified patented features	7 500 000	7 500 000
Tax rate	11.8 %	4.0 %
Other income	7 500 000	7 500 000
Tax rate	11.8 %	11.8 %
TAX PAYABLE	1 770 000	1 185 000
Difference	—	-585 000
Per cent	—	-33 %

■ Qualifying innovative manufacturing corporation

■ Manufacturing and processing activities

"Qualifying innovative manufacturing corporation" for a particular taxation means a corporation at least 50% of whose activities consist in activities in the manufacturing and processing sector carried out in Québec.

Also, just like the reduction of the tax rate that an SMB in the primary and manufacturing sectors may claim, labour cost will be the item considered in determining the proportion of a corporation's activities that is attributable to activities in the manufacturing and processing sector carried out in Québec.

More specifically, the proportion of a corporation's activities in the manufacturing and processing sector will be determined according to the following formula:

$$\text{Proportion of activities in the manufacturing and processing sector carried out in Québec} = \frac{\text{MPLC}}{\text{LC}}$$

In this formula:

- MPLC represents the manufacturing and processing sector labour cost related to activities carried out in Québec;
- LC corresponds to the labour cost related to activities carried out in Québec.

Manufacturing and processing activities are those that, pursuant the *Income Tax Regulations* under the *Income Tax Act*, constitute eligible activities for the purposes of determining manufacturing and processing profits.

For the purposes of this formula, the notions of manufacturing and processing labour cost and labour cost will be defined according to the criteria used in the *Income Tax Regulations* for the purposes of determining manufacturing and processing profits, modified as necessary to consider only activities carried out in Québec.

■ **Paid-up capital of at least \$15 million**

A qualifying innovative manufacturing corporation, for a particular taxation year, must have a paid-up capital of at least \$15 million calculated either for its previous taxation year or, if the corporation is in its first fiscal period, based on its financial statements prepared at the beginning of that fiscal period in accordance with generally accepted accounting principles.

Also, if the corporation is associated with one or more other corporations in the taxation year, the total of the amounts each of which is, for the corporation and the other corporations, the amount of their paid-up capital calculated in the usual manner must be at least \$15 million.

■ **Qualified property**

“Qualified property” of a qualified innovative manufacturing corporation for a particular taxation year means property:

- that integrates at least one qualified patented feature whose period of validity is not expired in the year;
- that is sold or rented by the corporation in the year;
- the gross income from which for the year is reasonably attributable to an establishment of the corporation located in Québec.

Also, in order for property to be qualified property for a taxation year, a corporation must keep a separate accounting for the property so that an acceptable value of a portion of the corporation's gross expenses and income can be attributed to the property for the year.

■ **Qualified patented feature**

A "qualified patented feature" of a qualified innovative manufacturing corporation for a particular taxation year means an invention for which the corporation holds a patent, alone or with other persons, under the *Patent Act* or any other law of a jurisdiction other than Canada to the same effect (hereinafter collectively, "patent law").

A qualified patented feature qualifies for the application of the DIC for a particular taxation year only if the protection granted to it under a patent law⁴⁹ is valid throughout the year and is not invalidated in the year.⁵⁰

In addition, only patents for which an application in due form is filed with the competent authorities under a patent law after the day of the budget speech will qualify for application of the DIC.

In that respect, a corporation will be deemed to hold a patent for a taxation year if it has duly filed an application for a patent under a patent law⁵¹ and a decision by the competent authority is pending.

■ **Qualified patented feature resulting from R&D work carried out in Québec**

An invention that constitutes a qualified patented feature of a qualified innovative manufacturing corporation must result, in whole or in part, from R&D work that was carried out in by the corporation in Québec, or that was carried out in Québec by a corporation with which it was associated at the time the work was carried out.⁵²

Also, such work must have given rise to a refundable R&D tax credit for the qualified innovative manufacturing corporation or, if applicable, for the corporation with which it was associated.

■ **Sustained innovation effort**

For an invention to be recognized as a qualified patented feature of a qualified innovative manufacturing corporation for a taxation year, the corporation must have made a sustained innovation effort.

⁴⁹ See, for example, section 44 of the *Patent Act*.

⁵⁰ See, for example, section 60 of the *Patent Act*.

⁵¹ See, for example, section 28 of the *Patent Act*.

⁵² In that respect, R&D work performed for the corporation or a corporation with which it was associated will also be considered.

More specifically, for the five-year period preceding the year in which an application for a patent was filed under a patent law concerning a qualified patented feature incorporated into qualified property, the total eligible R&D expenditures paid by the qualified innovative manufacturing corporation and those paid by a corporation that was associated with it in the year in which the R&D work was carried out must be at least \$500 000.⁵³

In addition, the corporation or the associated corporation, as applicable, must have been granted a refundable R&D tax credit in respect of the R&D expenditures⁵⁴.

Where two or more qualified patented features are integrated into qualified property sold or rented by a qualified innovative manufacturing corporation, this \$500 000 amount may be composed of all the eligible R&D expenditures related to each five-year period applicable to a patent application.

Consequently, this total amount of \$500 000 in qualified R&D expenditures will be calculated taking into account all the eligible R&D expenditures that were paid by the corporation or by a corporation associated with it, as applicable, for the five-year period preceding each year in which an application for a patent was filed under a patent law in connection with a qualified patented feature incorporated into qualified property.

These R&D expenditures must have given entitlement to a refundable R&D tax credit, as mentioned above.

Also, only applications for a patent under a patent law made after the day of the budget speech will be considered in the calculation of the \$500 000 amount.

■ **Determination of the value of a qualified patented feature**

The value of a qualified patented feature incorporated into qualified property of a qualified innovative manufacturing corporation for a taxation year corresponds to the portion of the net income earned from the sale or rental of the property by the corporation that can reasonably be attributed to the additional value added to the income by the qualified patented feature for the year.

In that respect, where expenditures exceed gross income that is attributable to qualified property for a taxation year according to the separate accounting that a qualified innovative manufacturing corporation is required to keep concerning such property, the value of a qualified patented feature—or the value of two or more qualified patented features, as applicable—will be deemed equal to zero.

□ **Special tax**

The tax legislation will be amended so that a qualified innovative manufacturing corporation will be subject to a special tax for a taxation year in the following four situations.

⁵³ See the preceding note.

⁵⁴ More specifically, R&D expenditures that do not give entitlement to a refundable R&D tax credit pursuant to the exclusion threshold applicable to such a tax credit—a threshold that may vary from \$50 000 to \$225 000 for a taxation year—will not be considered in calculating the \$500 000 amount.

■ Patent not issued

Further to the application for a patent constituting a qualified patented feature, no patent is issued within five years after the date the patent application was filed with a competent authority.⁵⁵

■ Invalidated patent

The patent constituting a qualified patented feature has been invalidated pursuant to the procedure provided for by a patent law.⁵⁶

■ Reassessment cancelling an R&D tax credit related to the R&D work leading to the patent

A reassessment cancels a refundable R&D tax credit granted to the qualified innovative manufacturing corporation or to a corporation with which it was associated, as applicable, and the tax credit was presented by the corporation as the basis for the R&D work that produced the invention resulting in the qualified patented feature.

Consequently, the qualified innovative manufacturing corporation will be subject to the special tax only if no other refundable R&D tax credit can be presented by it as the basis for the R&D work that produced the invention resulting in the qualified patented feature.

■ Reassessment modifying an R&D tax credit considered in calculating the innovation effort

A reassessment cancels, in whole or in part, a refundable R&D tax credit granted to the qualified innovative manufacturing corporation or to a corporation with which it was associated, as applicable, and the tax credit was considered by the corporation in the calculation of the \$500 000 amount of R&D expenditures used to demonstrate sustained innovation effort.

Consequently, the qualified innovative manufacturing corporation will be subject to the special tax only if the total amount of R&D expenditures related to all the other refundable R&D tax credits that were considered by it for the purposes of this qualification criterion is less than \$500 000 in qualified R&D expenditures.

■ Calculation of the special tax

The purpose of this special tax will be to recover the tax reduction resulting from the application of the DIC granted to a qualified innovative manufacturing corporation for a preceding taxation year.

More specifically, this special tax will correspond to the amount of tax that the qualified innovative manufacturing corporation would have had to pay for the taxation year covered by one of the situations mentioned above if no tax reduction had been granted for that year pursuant to the DIC in excess of the amount it was required to pay for that year taking into account the application of the DIC.

⁵⁵ See note 51.

⁵⁶ See note 50.

❑ Application date

This new deduction for innovative manufacturing corporations will apply in respect of a taxation year of a corporation beginning after December 31, 2016.

2.6 Enhancement of the tax credit for the integration of information technologies in SMBs in the primary and manufacturing sectors

In October 2013, a new refundable tax credit was introduced temporarily to support Québec's small and medium-sized businesses (SMBs) in the manufacturing sectors that want to invest in technology and integrate information technologies (IT) in their business processes.⁵⁷

In addition, as part of the budget speech of March 26, 2015, changes were made to the tax credit, among other things, so as to extend its application to primary sector businesses and prolong its duration to December 31, 2019.⁵⁸

Briefly, a qualified corporation may claim the refundable tax credit for the integration of IT in primary and manufacturing sector SMBs in respect of its expenditures relating to the supply of a qualified management software package that are incurred by it before January 1, 2020.⁵⁹

The tax credit is equal to 20% of expenditures relating to an IT integration contract for which Investissement Québec has issued a certificate. This 20% rate is reduced linearly and falls to zero when the paid-up capital of a qualified corporation reaches \$20 million.

Also, the total amount of this tax credit that a qualified corporation may receive for the duration of the tax credit regarding one or more IT integration contracts, as applicable, is limited to \$50 000 dollars.⁶⁰

To further stimulate the integration of IT into the business processes of Québec SMBs, the tax credit will be enhanced, firstly, by making it accessible to corporations operating in the wholesale and retail sectors and, secondly, by increasing to \$50 million the amount of paid-up capital above which the tax credit rate is reduced to zero for a qualified corporation.

⁵⁷ MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin* 2013-10, October 7, 2013, pp. 28-33.

⁵⁸ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.53-A.56.

⁵⁹ A corporation that is a member of a partnership may also claim the tax credit. See the *Taxation Act*, s. 1029.8.36.166.60.27.

⁶⁰ In the case of a qualified IT integration contract in respect of which an application for a certificate was made prior to June 4, 2014, and for which Investissement Québec issued such a certificate, expenditures relating to the supply of a qualified management software package that are incurred before January 1, 2020, relating to such an IT integration contract will qualify based on the parameters in effect before June 4, 2014. In this case, the tax credit is equal to 25% of expenditures relating to such an IT integration contract and the total amount of the tax credit relating to one or more IT integration contracts covered by this transitional rule is limited to \$62 500.

❑ Eligibility of corporations operating in the wholesale and retail sectors

The integration of IT into a company's business processes is a key driver of productivity and competitiveness, which leads to more innovation.

Consequently, the tax legislation will be amended to broaden the application of this tax credit to corporations operating in the wholesale and retail sectors. A corporation's activities in these sectors will therefore be considered to determine its eligibility for the tax credit.

More specifically, the tax legislation will be amended so that a corporation will be eligible for the tax credit for a taxation year where the proportion of its activities eligible for the tax credit among its manufacturing and processing activities, its primary sector activities, and its wholesale and retail activities for the taxation year exceeds 50%.

Activities in the wholesale and retail sectors will be those attributable to activities that are grouped under codes 41 (wholesale trade) and 44 and 45 (retail trade) of the North American Industry Classification System (NAICS).⁶¹

■ Proportion of eligible activities in respect of the tax credit

The proportion of eligible activities (PEA) in respect of the tax credit of a qualified corporation for a taxation year corresponds to the result of the following formula:

$$\text{PEA} = \frac{\text{SWEA}}{\text{SW}}$$

In this formula,

- SWEA corresponds to the salaries or wages incurred by the corporation in respect of employees whose duties consist of manufacturing or processing activities, primary sector activities, or wholesale or retail activities;
- SW corresponds to the salaries or wages incurred by the corporation in respect of all of its employees.

The salaries or wages of an employee for the purposes of the numerator SWEA in this formula means the portion of the salaries or wages incurred by the qualified corporation in respect of an employee represented by dividing the time the employee spends on duties connected with activities eligible for the tax credit by all of the employee's work time.

Where more than 90% of an employee's work time is spent on duties connected with activities eligible for the tax credit for a taxation year, all of the employee's work time will be deemed to be spent on such duties for the taxation year.

Consequential amendments will be made to the tax legislation concerning situations where a business is carried on through a partnership.

⁶¹ See note 28.

More specifically, the other conditions applicable to the tax credit provided for in the tax legislation will remain unchanged.

■ **Application date**

This change will apply in respect of a taxation year of a corporation ending after the day of the budget speech.

However, it will apply only to expenditures relating to the supply of a qualified management software package incurred after the day of the budget speech but before January 1, 2020, and in respect of an IT integration contract the negotiation of which commences after the day of the budget speech but before January 1, 2020, and for which Investissement Québec issued a qualification certificate.

□ **Increase in the amount of paid-up capital**

The tax credit rate in respect of a qualified corporation is 20% for a taxation year where the corporation's paid-up capital does not exceed \$15 million for the year.⁶²

The rate is reduced linearly and falls to zero when the paid-up capital of the qualified corporation for the year reaches \$20 million or more. Consequently, a qualified corporation whose paid-up capital is \$20 million or more for a taxation year may not claim the tax credit.⁶³

These amounts of paid-up capital used to reduce the tax credit rate will be increased.

More specifically, the tax legislation will be amended so that the 20% tax rate in respect of a qualified corporation for a taxation year will not be reduced when the corporation's paid-up capital does not exceed \$35 million for the year.

The rate will be reduced linearly and will fall to zero when a corporation's paid-up capital for a taxation year exceeds \$35 million and reaches \$50 million or more. Consequently, a qualified corporation whose paid-up capital is \$50 million or more for a taxation year will not be able to not claim the tax credit.

This change will apply in respect of a taxation year of a corporation ending after the day of the budget speech.

⁶² The paid-up capital of a qualified corporation for a taxation year is determined taking into account the paid-up capital of all the members of an associated group to which the corporation belongs. See the *Taxation Act*, s. 1029.8.36.166.60.23.

⁶³ *Taxation Act*, s. 1029.8.36.166.60.29.

2.7 Clarification concerning the refundable tax credit for technological adaptation services

A refundable tax credit for technological adaptation services, calculated at 40%, is granted to a corporation that carries on a business in Québec and has an establishment there in relation to eligible liaison and transfer services carried out on its behalf, either by an eligible college centre for the transfer of technology (CCTT) or by an eligible liaison and transfer centre (hereinafter, "LTC").⁶⁴

This tax credit was introduced as part of the budget speech of March 9, 1999, and is designed to create, among other things, an environment that will foster cooperation between the public research community and businesses for innovation efforts by businesses.⁶⁵

In that respect, CCTTs and LTCs play a key role, since they exist throughout Québec and their contribution in terms of training and guidance in innovation benefits Québec businesses both locally and regionally.

A clarification will be made to the tax credit to specify that CCTTs and LTCs must render their services within Québec.

More specifically, the tax legislation will be amended so that an expenditure will qualify for the tax credit for technological adaptation services only if it concerns an eligible liaison and transfer service provided in Québec or it concerns participation in training and information activities dispensed in Québec in connection with an eligible liaison and transfer service.⁶⁶

This change will apply regarding qualified expenditures incurred by a qualified corporation after the day of the budget speech in connection with services offered after that day by a CCTT or an LTC under a contract entered into after that day with the CCTT or LTC, as applicable.

2.8 Introduction of a temporary refundable tax credit for major digital transformation projects

The emergence of the information technology sector has led to major changes in the business processes of many businesses.

Nowadays, digitization of operations helps to automate and standardize processing in many activities, which encourages businesses of all types to press forward in transforming their operational model by outsourcing, in whole or in part, certain functions in their business process.

In recent years, tax incentive measures have been introduced to foster the emergence in Québec of businesses operating in the sector of the new economy.

⁶⁴ *Taxation Act*, ss. 1029.8.21.17 to 1029.8.21.30.

⁶⁵ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1999-2000 – Additional Information on the Budgetary Measures*, March 9, 1999, section 1, pp. 26-33.

⁶⁶ *Taxation Act*, s. 1029.8.17.21, 1st par., definition of the expression "qualified expenditure."

Accordingly, over the years, the expertise of Québec businesses in the information technology sector and the qualified labour force supporting them have enabled Québec to position itself advantageously in this sector of activity which is characterized by stiff international competition.

Consequently, a temporary refundable tax credit will be introduced to support the implementation and maintenance of major digital transformation projects in Québec.

This tax credit will apply to eligible digitization contract that are entered into after the day of the budget speech and before January 1, 2019, and it will target the implementation of projects that will generate the creation of at least 500 new jobs in Québec to be maintained for a period of seven years.

The tax credit will be equal, for a two-year period in respect of an eligible digitization contract, to 24% of the eligible salary paid by the corporation to an eligible employee during this period, but without exceeding an amount of \$20 000 per employee annually.

To qualify as an eligible digitization contract, Investissement Québec must have issued a qualification certificate in respect of the contract.

❑ Calculation of the tax credit

The tax legislation will be amended so that the refundable tax credit for major digital transformation projects that a qualified corporation may claim in respect of the eligible salary it pays to an eligible employee for a taxation year will correspond to 24% of whichever of the following amounts is less:

- the eligible salary that it incurred in respect of the eligible employee for the eligibility period for an eligible digitization contract included in the year;
- an amount of \$83 333 calculated on an annual basis, according to the usual rules.

Accordingly, the amount of the tax credit will be subject to an annual limit of \$20 000 for each eligible employee.

More specifically, a qualified corporation must have paid the eligible salary to an eligible employee before it can apply for the tax credit.

❑ Eligibility period relating to an eligible digitization contract

“Eligibility period relating to an eligible digitization contract” means the 24-month period beginning on the day on which the eligible digitization activities provided for in the eligible digitization contract began to be carried out.

In that respect, the carrying out of the eligible digitization activities provided for in the eligible digitization contract must begin within a reasonable time after the contract is entered into.

☐ Qualified corporation

“Qualified corporation” for a taxation year means a corporation, other than an excluded corporation, that has an establishment in Québec and carries on a business there.

■ Excluded corporation

“Excluded corporation” means:

- a corporation exempt from tax;
- a Crown corporation or a wholly-controlled subsidiary of such a corporation.

☐ Qualified wages

“Qualified wages” for a taxation year means the wages calculated according to the *Taxation Act* that a qualified corporation incurs, after the day of the budget speech, in respect of one of its eligible employee for the year.

Also, the amount of qualified wages incurred by a qualified corporation for a taxation year must be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit attributable to such salary, according to the usual rules.

More specifically, the total qualified wages incurred by a qualified corporation in respect of one of its eligible employees will constitute, subject to the rules described above, the amount of qualified wages for the purposes of the tax credit.

☐ Eligible employee

“Eligible employee” for a taxation year means an employee, other than an excluded employee, for whom Investissement Québec issued a qualification certificate indicating that the employee is an eligible employee of all or a part of the year.

In addition, to qualify as an eligible employee, an employee must report for work at an establishment of the qualified corporation located in Québec, according to the usual rules.⁶⁷

■ Excluded employee

“Excluded employee” for a taxation year means a specified shareholder of the corporation for the year.⁶⁸

☐ Qualification certificates issued by Investissement Québec

The *Act respecting the sectoral parameters of certain fiscal measures* will be amended so that Investissement Québec will be empowered to issue annual qualification certificates for the eligible employees of a qualified corporation as well as a certificate for an eligible digitization contract for the purposes of the tax credit.

⁶⁷ See, for example, the *Taxation Act*, s. 1029.8.36.0.3.79, par. 2.

⁶⁸ *Taxation Act*, s. 1, definition of “specified shareholder.”

■ Annual certificate of an eligible employee

A qualified corporation will have to obtain, for a taxation year, a certificate for each employee in respect of which it wishes to obtain the refundable tax credit for the wages it paid to the employee for the year.

A certificate may be issued for an employee for a taxation year of the qualified corporation only if the employee meets the following conditions for the year:

- the employee held, in the course of executing one or more eligible digitization contracts, a full-time position involving a minimum of 26 hours of work a week, for an expected minimum period of 40 weeks;
- at least 75% of the employee's duties consisted in undertaking or directly supervising eligible digitization activities carried out in the course of one or more eligible digitization contracts;
- the employee is identified in respect of a single digitization contract eligible for the purposes of calculating the minimum number of 500 eligible employees that must be assigned to carry out the activities provided for in the contract for a minimum period of seven years.

However, where a portion of an employee's duties for a taxation year of the qualified corporation consists in undertaking or directly supervising activities that would be considered eligible activities of the corporation for the purposes of the refundable tax credit for the development of e-business (hereinafter, the "TCEB"),⁶⁹ that portion of the employee's duties will be deemed to consist in carrying out eligible digitization activities carried out in the course of an eligible digitization contract.⁷⁰

A qualification certificate may be issued by Investissement Québec for an employee for only a portion of a taxation year of a qualified corporation, in which case the qualification certificate must indicate the employee's eligibility period.

In addition, where an employee is temporarily absent from his or her work for reasons that Investissement Québec judges reasonable in the circumstances, the employee may be recognized as a qualified employee of the corporation and considered as having continued to perform his or her duties throughout the period of absence, exactly as the employee was doing immediately before that period began.

Moreover, administrative duties such as management of operations, accounting, finance, legal affairs, public relations, communications, prospecting for mandates, and human and physical resources management will not be considered duties related to the carrying out of an eligible digitization activity.

⁶⁹ *Taxation Act*, s. 1029.8.36.0.3.79.

⁷⁰ For the purposes of this presumption, only the activities carried out by the employee will be considered and not the corporation's eligibility for the TCEB. See sections 13.3 and 13.11 of Schedule A to the *Act respecting the sectoral parameters of certain fiscal measures*.

■ **Application for a certificate**

A qualified corporation must submit an application for a certificate in respect of an employee to Investissement Québec within a reasonable time following the end of the taxation year for which the certificate is being requested.

■ **Certificate for an eligible digitization contract**

A qualified corporation must obtain a certificate for each eligible digitization contract for which it wishes to claim the refundable tax credit for a taxation year.

A certificate can be issued in respect of an eligible digitization contract only if the contract meets the following conditions:

- it is entered into after the day of the budget speech and before January 1, 2019;
- it does not constitute a renewal or extension of an already existing contract;
- it provides for the carrying out of eligible digitization activities for another person during a minimum period of seven years beginning on the day those activities begin to be carried out;
- it gives rise to the creation of 500 jobs in Québec;
- the eligible digitization activities provided for in the contract do not stem from activities previously carried out in Québec; consequently, such eligible digitization activities must stem from activities that were carried out entirely outside Québec by another person for a minimum period of 24 months preceding the time the contract was entered into.

■ **Application for a certificate**

A qualified corporation must submit an application for a certificate for an eligible digitization contract to Investissement Québec before the eligible digitization activities provided for in the contract begin to be carried out.

□ **Eligible digitization activity**

“Eligible digitization activity” means an activity provided for in an eligible digitization contract in order to allow the digital transformation of traditional operations that were previously carried out outside Québec by a person other than the qualified corporation.

Firstly, an information technology (IT) activity that does not constitute an eligible activity for the purposes of the TCEB because it consists in an IT operation or management activity may constitute an eligible digitization activity.

Thus, an eligible digitization activity will include:

- the operation of an e-business solution;

- the management or operation of computer systems, applications or infrastructures stemming from e-business activities such as management of e-business processing centres;
- the operation of a customer relations centre;
- hardware installation;
- training activities.⁷¹

Secondly, an activity that consists in carrying out traditional operations targeted by digital transformation—like claims processing, risk monitoring and control, and product profitability analysis—will constitute an eligible digitization activity.

❑ Creation of a minimum of 500 jobs

As mentioned above, a contract will not qualify as an eligible digitization contract unless it gives rise to the creation of 500 jobs in Québec.

Consequently, a qualified corporation must demonstrate to Investissement Québec that an eligible digitization contract—concerning the carrying out of eligible digitization activities not stemming from activities previously carried out in Québec—will allow the creation of a minimum of 500 jobs in Québec.

In that respect, a person can be considered a new employee of the qualified corporation assigned to carry out eligible digitization activities provided for in an eligible digitization contract only if he or she did not render any paid service to the corporation for a minimum period of 24 months preceding the time the contract was entered into.

Notwithstanding the foregoing, among this minimum number of 500 new eligible employees, a maximum number of 100 employees will be allowed to be persons who have already rendered paid services to the corporation during that 24-month period, since, among other things, the supervision and training of the new employees might so require.

The creation of a job in connection with an eligible digitization contract will not become effective, after a person is hired, until the person begins carrying out his or her duties, at least 75% of which must consist in undertaking or directly supervising eligible digitization activities carried out in the course of the contract, or carried out in the course of that contract and another eligible digitization contract, as applicable.

Also, as mentioned above, where a portion of an employee's duties for a taxation year of the qualified corporation consists in undertaking and directly supervising activities that would be considered eligible activities of the corporation for the purposes of the TCEB, that portion of the employee's duties will be deemed to consist in carrying out eligible digitization activities carried out in the course of an eligible digitization contract.

⁷¹ See section 13.12 of Schedule A to the *A Act respecting the sectoral parameters of certain fiscal measures*.

The minimum number of 500 new eligible employees assigned to carry out activities provided for in an eligible digitization contract must be reached within a reasonable time after the eligible digitization activities provided for in the eligible digitization contract begin to be carried out and must be maintained until the end of a seven-year period following the time those activities begin to be carried out.

A qualified corporation must transmit to Investissement Québec, for each of the years in the seven-year period following the first two years of the period for which it received the tax credit, a form containing information showing that the criterion concerning the maintenance of a minimum number of 500 eligible employees was met throughout that year.

Thus, a qualified corporation will no longer need to obtain an annual certificate for each of its employees after the first two years of the seven-year period. Nonetheless, each employee must continue to qualify as an eligible employee after those first two years. Consequently, an employee must continue to carry out eligible digitization activities provided for in an eligible digitization contract for the remaining time in the seven-year period attributable to the contract.

In addition, each eligible employee included in the minimum number of 500 employees will continue to be identified annually in connection with only one eligible digitization contract.

A qualified corporation must transmit such a form to Investissement Québec within a reasonable time following the end of a year to which the form applies.

If a qualified corporation fails to file the form, the certificate for the eligible digitization contract to which the form applies will be revoked.

However, the criterion concerning the maintenance of a minimum of 500 jobs will be deemed to have been met for a particular year where a corporation shows, to the satisfaction of Investissement Québec, that it is due to exceptional circumstances beyond its control—such as employees leaving and it being impossible to immediately fill the positions which thereby become vacant—that it does not otherwise meet the criterion for that year.

❑ Transition toward the TCEB in respect of an eligible employee during the seven-year period

A qualified corporation may, where applicable, obtain a certificate for the purposes of the TCEB for an eligible employee after the eligibility period for an eligible digitization contract.

■ First two years of the seven-year period

More specifically, a qualified corporation that has obtained a certificate for the purposes of the refundable tax credit for major digital transformation projects in respect of an employee for a taxation year included in the eligibility period for an eligible digitization contract, that is, the first two years of the seven-year period during which 500 jobs must be created and maintained, may not obtain a certificate for the employee for the purposes of the TCEB for that year, since two different certificates for the purposes of two tax credits may not be issued for the same employee for a taxation year.

In such a case, the employee may be considered for the calculation of the minimum number of 500 jobs that must be created and maintained for the purposes of the refundable tax credit for major digital transformation projects.

On the other hand, an employee for whom a qualified corporation chooses instead to obtain a certificate for the purposes of the TCEB for a taxation year included in the eligibility period for an eligible digitization contract cannot give entitlement to a certificate for the purposes of the refundable tax credit for major digital transformation projects.

In such a case, the employee could not be considered an eligible employee for the purposes of the refundable tax credit for major digital transformation projects for the eligibility period for an eligible digitization contract, since no certificate could be issued for the employee for the purposes of that tax credit.

Therefore, the employee could not be considered, during those first two years, for the calculation of the minimum number of 500 jobs that must be created and maintained for the purposes of the tax credit.

■ **Five subsequent years of the seven-year period**

Since no certificate is required for an eligible employee after the eligibility period for an eligible digitization contract for the purposes of the refundable tax credit for major digital transformation projects, a corporation can therefore obtain a certificate for the purposes of the TCEB for an eligible employee assigned to carry out eligible digitization activities for the remaining time in the seven-year period fixed for an eligible digitization contract, provided all the other applicable conditions for the TCEB are met.

In such a case, the employee can be considered for the calculation of the minimum number of 500 jobs that must be created and maintained for the purposes of the refundable tax credit for major digital transformation projects, provided all the other applicable conditions are met.

□ **Special tax**

The tax legislation will be amended so, that for a taxation year, a qualified corporation will be subject to a special tax where Investissement Québec revokes the qualification certificate issued for an eligible digitization contract on the ground that the minimum number of 500 eligible employees in connection with the contract was not met throughout a minimum period of seven years following the time the eligible digitization activities provided for in the contract began to be carried out.

The amount of the special tax will correspond, where such revocation occurs after the qualified corporation received the tax credit for the first taxation year covered by this measure, to the amount of the tax credit.

The amount of the special tax will correspond, where such revocation occurs after the qualified corporation received the tax credit for the two taxation years covered by this measure, to the following amount:

- 100% of the total amount of the tax credits for those two years where the revocation results from non-compliance with this criterion in the third year following the time the eligible digitization activities provided for in the eligible digitization contract began to be carried out;
- 80% of the total amount of the tax credits for those two years where the revocation results from non-compliance with this criterion in the fourth year following the time the eligible digitization activities provided for in the eligible digitization contract began to be carried out;
- 60% of the total amount of the tax credits for those two years where the revocation results from non-compliance with this criterion in the fifth year following the time the eligible digitization activities provided for in the eligible digitization contract began to be carried out;
- 40% of the total amount of the tax credits for those two years where the revocation results from non-compliance with this criterion in the sixth year following the time the eligible digitization activities provided for in the eligible digitization contract began to be carried out;
- 20% of the total amount of the tax credits for those two years where the revocation results from non-compliance with this criterion in the seventh year following the time the eligible digitization activities provided for in the eligible digitization contract began to be carried out.

2.9 Increase in the rates of the refundable tax credit for resources in respect of mining exploration expenses in the Near North or Far North

The refundable tax credit for resources was introduced as part of the budget speech of March 29, 2001.⁷²

Briefly, a qualified corporation that incurs eligible expenses for a taxation year may claim the refundable tax credit for resources at a rate of up to 31% in respect of those eligible expenses for the taxation year.

The rate of the tax credit a qualified corporation may claim for the eligible expenses it incurs varies according to a number of parameters, including the type of resource to which the eligible expenses are related, the place where the expenses are incurred and the type of corporation that incurs the expenses.

⁷² MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2001-2002 – Additional Information on the Fiscal Measures of the Budget*, March 29, 2001, section 1, pp. 50-55.

To provide additional support to qualified corporations in their mining exploration work in regions where conditions of access are often difficult, the rates of the refundable tax credit for resources in respect of eligible expenses relating to mining resources incurred in the Near North or Far North of Québec will be increased by 25%. Consequently, the tax credit rates will increase from 31% to 38.75% and from 15% to 18.75% depending on the type of qualified corporation concerned.

Further to this increase, the rates of the refundable tax credit for resources will be as shown in the following table.

TABLE A.10

Rates of the refundable tax credit for resources
(per cent)

	Corporation not operating any mineral resource or oil or gas well ⁽¹⁾	Other corporation
Tax credit for eligible expenses:		
– relating to mining resources:		
▪ in the Near North or Far North	38.75	18.75
▪ elsewhere in Québec	28.00	12.00
– relating to oil or natural gas:		
▪ in the Near North or Far North	31.00	15.00
▪ elsewhere in Québec	28.00	12.00
– relating to renewable energy and energy conservation	28.00	24.00
– relating to other natural resources (cut stone)	12.00	12.00

(1) Such a corporation must not be part of an associated group within which a member operates a mineral resource or an oil or gas well.

The increase in the rates of the refundable tax credit for resources regarding eligible expenses relating to mining resources incurred in the Near North or Far North will apply to eligible expenses incurred after the day of the budget speech.

2.10 Refundable tax credit for Québec film and television production

In general, the refundable tax credit for Québec film and television production applies to a qualified labour expenditure incurred by a qualified corporation that produces a Québec film in respect of which the Société de développement des entreprises culturelles (SODEC) issued a certificate recognizing the film to which it applies as an eligible Québec film or television production.

The tax credit is equal to 40% or 32% of the qualified labour expenditure incurred to produce the film in the case of a production that was not adapted from a foreign format and 36% or 28% of such an expenditure in the case of production that was adapted from a foreign format (hereinafter, the “base rates”). However, the labour expenditure giving rise to the tax credit may not exceed 50% of the film’s production costs.

Thus, the 40% and 36% base rates apply to the labour expenditure related to the production of certain feature-length, medium or short films, certain productions intended for young people and certain documentaries, provided they are in French (hereinafter, “French-language production”); this also applies for giant-screen films, regardless of the language.

Moreover, the 32% and 28% base rates apply to the production of other categories of eligible films.

In addition, certain types of labour expenditures may give entitlement to the following increases: the 8% increase for special effects and computer animation, the 8% or 16% regional increase, as applicable, and the 8% increase for a production that has not received any financial assistance from a public organization (hereinafter, the “increase for no public financial assistance”).⁷³

An eligible Québec film or television production for the purposes of the tax credit is, in particular, a production that belongs to a category of eligible films and no part of which belongs to a category of films that is not eligible. A production that is eligible for the purposes of the tax credit may also qualify for an increase in accordance with the specific conditions of the increase.

More specifically, the eligibility of certain categories of films is based, among other things, on the age of the audience targeted by a production, depending on whether it is intended for children under 13 years of age or persons age 13 or older and, if applicable, the time at which it is broadcast based on a programming schedule likewise determined based on audience age.

To take into account, firstly, the difficulties in distinguishing between age groups that may be targeted by productions intended for young people and, secondly, changes in viewing habits, the eligibility conditions of a category of films that are related to audience age and broadcasting time for the purposes of the tax credit and certain increases will be relaxed.

In addition, these relaxed conditions for the sectoral parameters of the tax credit will simplify application for SODEC and reduce the administrative burden on qualified corporations.

□ Productions intended for minors

It is desirable that the less restrictive eligibility conditions applied to certain categories of films when they are intended for children under 13 years of age should be extended to these same categories when they are intended for young people more generally.

⁷³ However, the maximum tax assistance that may be obtained may not exceed 56% of the qualified labour expenditure in the case of a production that is not adapted from a foreign format and 52% of such an expenditure in the case of a production that is adapted from a foreign format.

Consequently, the *Act respecting the sectoral parameters of certain fiscal measures* (hereinafter, the “sectoral act”) will be amended to substitute references to “minors” for references to “children under 13 years of age” in the following provisions:

- the provisions describing the categories of films that are eligible and the categories of films that are not eligible for the purposes of the tax credit;
- the provisions describing the categories of eligible films for the purposes of the increase for no public financial assistance.

For the sake of uniformity, the sectoral act will also be amended to substitute references to productions intended for “minors” for references to productions intended for “a young audience” in the provisions describing the categories of eligible films for the purposes of the increased base rates for a French-language production.

Moreover, the current distinctions established with respect to the eligibility conditions of a production intended for young people at the higher rates applicable to a French-language production, depending on whether it is intended children under 13 years of age or persons age 13 to 17, will be combined so as to target minors.

Thus, a production intended for minors must meet the following conditions:

- it must be conceived and produced to meet the expectations of such an audience, rather than those of adults, have young people as its protagonists and reflect reality from the viewpoint of young people;
- it must not be a family fiction production.

❑ Programming schedule

The sectoral act will also be amended to strike out, for the purposes of the eligibility of a category of films for the purposes of the tax credit, all conditions related to a programming schedule, including the distinctions established between the metropolitan Montréal region and the territory outside that region, in respect of both broadcasts intended for minors and broadcasts intended for an older audience.

❑ Application date

The amendments will apply to a film or television production for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was previously filed for the production, is submitted to SODEC after the day of the budget speech.

❑ Consequential amendments

Consequential amendments will be made to the sectoral act in respect of the eligibility and non-eligibility of a category of films for the purposes of the refundable tax credit pour film dubbing and the refundable tax credit for film production services.

In the case of the refundable tax credit for film dubbing, these amendments will apply in respect of an eligible production for which an application for a certificate is filed with SODEC after the day of the budget speech.

In the case of the refundable tax credit for film production services, these changes will apply in respect of an eligible production or eligible small-budget production for which an application for an approval certificate is filed with SODEC after the day of the budget speech.

2.11 New amounts of assistance excluded for the purposes of certain tax credits in the cultural sector

The amount of any government assistance and any non-government assistance, other than an excluded amount of assistance, that a qualified corporation received or is entitled to receive must reduce the amount of eligible expenses entering into the calculation of the tax credits in the cultural sector that the corporation can claim.

In general, the amount of financial assistance from a public body in the cultural sector is an excluded amount of assistance and does not reduce the amount of such qualified expenditures.

So that the different sources of funding in the cultural sector will remain complementary, amendments will be made to the tax legislation to exclude new amounts of assistance.

The tax legislation will be amended so that an amount of financial assistance from Québec City's Soutien à la production cinématographique et télévisuelle program will constitute an excluded amount of assistance for the purposes of the refundable tax credit for Québec film and television production.

Similarly, the tax legislation will be amended so that an amount of financial assistance from the Society for the Celebration of Montréal's 375th Anniversary will constitute an excluded amount of assistance for the purposes of the following tax credits in the cultural sector:

- the refundable tax credit for Québec film and television production;
- the refundable tax credit for film production services;
- the refundable tax credit for the production of sound recordings;
- the refundable tax credit for the production of performances;
- the refundable tax credit for book publishing;
- the refundable tax credit for the production of multimedia environments or events staged outside Québec.

In addition, financial assistance from Québec City's Soutien à la production cinématographique et télévisuelle program or the the Society for the Celebration of Montréal's 375th Anniversary will constitute financial assistance from a public body for the purposes of the increase for a production that has not received any financial assistance from a public organization provided for under the refundable tax credit for Québec film and television production. Consequently, a production for which such financial assistance has been granted will not be eligible for the increase.

These amendments will apply as of:

- January 1, 2015, in the case of an amount of financial assistance granted under Québec City's Soutien à la production cinématographique et télévisuelle program;
- January 1, 2012, in the case of an amount of financial assistance granted by the Society for the Celebration of Montréal's 375th Anniversary.

2.12 Change to the tax treatment of contributions made for political purposes

On November 24, 2015, the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction (hereinafter, the "commission of inquiry") tabled a report containing 60 recommendations intended to put an end to collusion in the construction industry.⁷⁴

Among those recommendations, one focused particularly on the application of the *Taxation Act* in respect of contributions made for political purposes in Québec.⁷⁵

In that respect, the commission of inquiry noted that the Court of Appeal of Québec had ruled, in a 2007 decision, that reimbursement by an employer of political contributions made by its employees constituted a deductible business expense in calculating its income under Québec tax legislation.

Under the *Election Act*, a political contribution must be made directly by the elector out of the elector's own property. Such a contribution must be made voluntarily, without compensation and for no consideration. In addition, a political contribution may not be reimbursed in any way.

The commission of inquiry furthermore pointed out that as long as Québec tax legislation did not explicitly prohibit the deduction of an expense associated with an illegal activity, such an expense would remain deductible to the extent that it is used to earn income from a business or property.

Consequently, the above-mentioned legislative restrictions regarding political contributions have no effect on whether a deduction may be claimed for them.

⁷⁴ COMMISSION D'ENQUÊTE SUR L'OCTROI ET LA GESTION DES CONTRATS PUBLICS DANS L'INDUSTRIE DE LA CONSTRUCTION, *Rapport final de la Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction*, November 2015, Volume 3, Part 5, Chapter 2 – "Les recommandations," pp. 90-192.

⁷⁵ See the preceding note, Recommendation No. 43, pp. 157-158.

Therefore, to remedy this situation, the tax legislation will be amended to stipulate that a contribution made for political purposes, illegally or otherwise, directly or indirectly, will not be deductible in calculating the income a taxpayer earns from a business or property.

This amendment will apply to a contribution made for political purposes after the day of the budget speech.

2.13 Increase in the eligible amount of donations of food products by food processors

For more than 25 years, the Food Banks of Quebec network has distributed food products, in addition to offering food assistance services to the public in every region of Québec. This vast network is made up of Moisson members⁷⁶ and Associate members⁷⁷ that supply more than 1 000 food assistance organizations. Each month, with the support of volunteers, the organizations served by Moisson members process more than 1.7 million requests for emergency food assistance.

To support the Food Banks of Quebec network by encouraging more agricultural producers to donate food products, it was announced as part of Budget Speech 2015-2016 that the eligible amount of a donation made, after March 26, 2015, by a recognized agricultural producer to a registered charity that is either the Food Banks of Quebec or a Moisson member⁷⁸ may be increased by 50% for the purposes of calculating the deduction for gifts or the non-refundable tax credit for gifts, as applicable, if the donation consists of eligible agricultural products.⁷⁹

The list of eligible agricultural products includes, among other things, eggs and dairy products, fruits, vegetables, grains and pulses, provided the products may be legally sold, distributed or offered for sale at a place other than where they were produced as food products or beverages for human consumption. However, products that have been processed are generally not considered to be eligible agricultural products.

⁷⁶ Moisson members are regional food banks that serve as regional sorting centres and redistribute food products. They have substantial infrastructures and provide at least 75% of the food redistributed to local agencies, in addition to 25% of the emergency food assistance provided to persons in need. They solicit donations from local and regional food suppliers.

⁷⁷ Associate members are local agencies offering food assistance services in a particular region. They solicit donations from local food suppliers.

⁷⁸ Currently, the Moisson members that have registered charity status are Centre de bénévolat et Moisson Laval, Moisson Beauce inc., Moisson Estrie, Moisson Kamouraska, Moisson Lanaudière, Moisson Laurentides, Moisson Mauricie / Centre-du-Québec, Moisson Montréal inc., Moisson Outaouais, Moisson Québec inc., Moisson Rimouski-Neigette inc., Moisson Rive-Sud, Moisson Saguenay-Lac-St-Jean inc., Moisson Sud-Ouest, Moisson Vallée Matapédia, la Ressourcerie Bernard-Hamel (Centre Bernard-Hamel/Centre familial), S.O.S. Dépannage Granby et région inc. and Unité Domrémy de Mont-Joli inc. (Moisson Mitis).

⁷⁹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.117-A.118.

To take into account the fact that Associate members may, like Moisson members, solicit donations from local food suppliers, the list of donees recognized for the purposes of the increase in the eligible amount of donations of eligible agricultural products will be amended to include, in respect of donations made after the date of the budget speech, any registered charity that is an Associate member.⁸⁰

In addition, to ensure that the Food Banks of Quebec network will receive quality food products in sufficient quantity throughout the year, the eligible amount of a donation of food products made, after the date of the budget speech, by a corporation, partnership or individual carrying on a food processing business to a registered charity that is either the Food Banks of Quebec or a Moisson member⁸¹ or Associate member⁸² may be raised by 50% for the purposes of calculating the deduction for gifts or the non-refundable tax credit for gifts, as applicable, if the donation consists of eligible food products.

For the purposes of this measure, the products that will be considered eligible food products are milk, oil, flour, sugar, deep frozen vegetables, pasta, prepared meals, baby food and infant formula.

⁸⁰ Currently, the Associate members that have registered charity status are Accueil Blanche Goulet de Gaspé inc., Centre d'action bénévole Ascension Escuminac, Centre d'action bénévole La Grande Corvée, Centre communautaire Pro-Santé inc., Centre de bénévolat de Port-Cartier inc., Collectif Aliment-Terre, Comptoir alimentaire de Sept-Îles, Comptoir alimentaire L'Escale, Service alimentaire et d'aide budgétaire de Charlevoix-Est inc. and Source alimentaire Bonavignon.

⁸¹ See note 78.

⁸² See note 80.

3. OTHER MEASURES

3.1 ***Amendments to the Act respecting duties on transfers of immovables to ensure its integrity and fairness***

The *Act respecting duties on transfers of immovables* (hereinafter, the “Act”) provides that every municipality must collect duties on the transfer of any immovable located in its territory.

However, the Act grants an exemption from paying transfer duties in certain circumstances.⁸³ For example, there is an exemption from paying transfer duties for the transfer of an immovable where the amount of the basis of imposition is less than \$5 000, the transfer of an immovable between spouses or the transfer of an immovable whose transferor and transferee are registered charities. The same holds true, under certain conditions, for the transfer of an immovable between a legal person and a natural person as well as between two closely related legal persons.

It has become clear, however, that various schemes have permitted certain transferees to take advantage of the provisions granting an exemption from paying transfer duties in situations where transfer duties normally should have been paid.

Likewise, the time at which transfer duties become payable has given rise to certain forms of planning by means of which payment of transfer duties is indefinitely postponed.

Finally, the Act may lead to unfair tax treatment when de facto spouses end their union.

Consequently, amendments will be made to the Act to ensure its integrity and fairness. Initially, these amendments will consist in tightening certain provisions granting an exemption from paying transfer duties. Then, the transfer duties due date will be corrected and a mechanism will be provided for the disclosure of an immovable transfer subject to the Act where the deed ascertaining the transfer is not registered in the land register. Finally, a change will be made to exempt certain transfers of immovables between two former de facto spouses.

Also, an amendment will be made to the Act so as to give effect to certain provisions in agreements the Québec government has entered into with international governmental organizations.

3.1.1 **Tightening of certain provisions granting an exemption from paying transfer duties**

The Act provides for an exemption from paying duties on the transfer of an immovable by a transferor who is a natural person to a transferee that is a legal person of which at least 90% of the issued shares of the capital stock to which are attached full voting rights are owned by the transferor immediately after the transfer.

⁸³ The cases of exemption are provided for in Chapter III of the Act.

Inversely, an exemption is provided for the transfer of an immovable by a transferor that is a legal person to a natural person who, immediately before the transfer, owns at least 90% of the issued full voting shares of the capital stock of the transferor.

In addition, the Act provides for an exemption where an immovable is transferred between two closely related legal persons. In that respect, a legal person is closely related to a particular legal person if, at the time of the transfer, one of the following situations applies:

- at least 90% of the issued full voting shares of the capital stock of the legal person are owned by the particular legal person, a qualifying subsidiary of the particular legal person, a legal person of which the particular legal person is a qualifying subsidiary, a qualifying subsidiary of a legal person of which the legal person is a qualifying subsidiary or any combination of such legal persons or subsidiaries;⁸⁴
- at least 90% of the fair market value of all the issued and outstanding shares of the capital stock of the legal person is owned by the particular legal person;
- at least 90% of the fair market value of all the issued and outstanding shares of the capital stock of the legal person and of the particular legal person is owned by the same legal person or group of legal persons.

It has become clear that the provisions granting an exemption from paying transfer duties when owning a specified percentage of the issued shares with full voting rights of the capital stock of a legal person have been invoked in situations where the transfer duties normally should be paid.

Also, there have been problems in applying the provisions granting an exemption from paying transfer duties when owning a specified percentage of the fair market value of the issued and outstanding shares of the capital stock of a legal person, preventing adequate monitoring of the exemption condition.

Consequently, these provisions should be amended, firstly, to ensure that the objective pursued by the tax policy underpinning the granting of such exemptions is achieved and, secondly, to facilitate and standardize the application of these provisions.

More specifically, the amendments to these provisions will consist in:

- clarifying the exemption condition for the transfer of an immovable between a natural person and a legal person as well as between two closely related legal persons;
- introducing a requirement to maintain the exemption condition for the transfer of an immovable between a natural person and a legal person as well as between two closely related legal persons;

⁸⁴ A qualifying subsidiary of a legal person is another legal person of which at least 90% of the issued shares having full voting rights are owned, at the time of the transfer, by that legal person.

- introducing a disclosure mechanism applicable where the exemption condition ceases to be met in the case of the transfer of an immovable by a transferor who is a natural person to a transferee that is a legal person as well as between two closely related legal persons;
- restricting the scope of the exoneration provisions for the transfer of an immovable between two closely related legal persons.

In view of these amendments, the anti-avoidance rule providing for the imposition by the Minister of Revenue of a special duty as transfer duties will be revoked.⁸⁵

❑ Clarification to the exemption condition for the transfer of certain immovables

The expressions “at least 90 per cent of the issued shares of the capital stock to which are attached full voting rights,” “at least 90 per cent of the issued full voting shares of the capital stock” and “at least 90% of the issued shares having full voting rights” determine whether a transferee is eligible for an exemption from paying transfer duties for the transfer of an immovable between a natural person and a legal person as well as between two closely related legal persons.⁸⁶

It has been noted, however, that there is a lack of consistency in the interpretation of these expressions.

To settle these differences in interpretation, the Act will be amended to specify that the percentage indicated in these expressions must be determined by calculating the number of votes attached to the shares of the capital stock of the legal person.

This amendment will apply in respect of the transfer of an immovable made after the day of the budget speech.

❑ Introduction of a requirement to maintain the exemption condition for certain transfers of immovables

To eliminate schemes whose sole purpose is to satisfy the exemption condition concerning the percentage of voting rights at the time of transferring an immovable, the Act will be amended to introduce an obligation to maintain the exemption condition for a minimum period of 24 months following the date of an immovable's transfer, where the transfer made by a transferor that is a natural person to a transferee that is a legal person or between two closely related legal persons is subject to an exemption from paying transfer duties based on ownership of shares of the capital stock of a legal person conferring on their owner at least 90% of the voting rights.

⁸⁵ This anti-avoidance rule is found in section 1129.29 of the *Taxation Act*.

⁸⁶ More specifically, these expressions are set forth in subparagraphs *a* and *b* of the first paragraph and subparagraph *a* of the second paragraph of section 19 of the Act.

More specifically, exemption from paying transfer duties will be granted at the time of an immovable's transfer by a transferor who is a natural person to a transferee that is a legal person if the exemption condition concerning the percentage of voting rights is met immediately after that time. Likewise, exemption will be granted at the time of an immovable's transfer between two closely related legal persons if the exemption condition concerning the percentage of voting rights is met at that time.

However, if, during the period of 24 months following the date of the immovable's transfer that enabled a transferee to be exempted from paying transfer duties, the exemption condition concerning the percentage of voting rights ceases to be met, the transferee will be liable for payment of the transfer duties that would have been payable further to the transfer had the exemption not been applicable on the date on which, for the first time during that period, the exemption condition ceased to be met.

In addition, the Act will be amended to introduce a requirement to maintain the exemption condition for a minimum period of 24 months immediately preceding the date of an immovable's transfer, where the transfer made by a transferor that is a legal person to a natural person is subject to an exemption from paying transfer duties based on ownership of shares of the capital stock of a legal person conferring on the owner at least 90% of the voting rights.

Where the legal person that transferred the immovable to a natural person was incorporated less than 24 months before the transfer of the immovable, exemption from paying transfer duties will be granted at the time of the transfer if the exemption condition has been met from the date of the legal person's incorporation up to the time immediately preceding the transfer.

For the purposes of determining compliance with the exemption condition, where, during the period of 24 months preceding or following, as applicable, the date of an immovable's transfer that enabled the transferee to be exempted from paying transfer duties, a person acquires a right to acquire, control voting rights or require the legal person to redeem, acquire or cancel shares of its capital stock held by other shareholders, the person will be deemed to have acquired the shares to which that right is attached. However, the person will not be deemed to have acquired the shares to which any of the above-mentioned rights is attached if the right is not exercisable at that time because the exercise of such right is contingent on the death, bankruptcy or permanent disability of an individual.

This amendment will apply in respect of the transfer of an immovable made after the day of the budget speech.

❑ Introduction of a disclosure mechanism applicable where the exemption condition ceases to be met

The Act will be amended to require that the transferee of an immovable whose transfer was exempted from payment of the transfer duties must notify the municipality in whose territory the immovable is located where, during the 24-month period following the immovable's transfer date, the exemption condition concerning the percentage of voting rights ceases to be met, in the case of the transfer of an immovable by a transferor who is a natural person to a transferee that is a legal person, as well as in the case of the transfer of an immovable between two closely related legal persons.

Where there is more than one transferee of the immovable, each transferee will be responsible for disclosing to the municipality a cessation of compliance with the exemption condition. However, the disclosure by one of the transferees on behalf of all the transferees will be deemed to have been made by each of the transferees.

The notice of disclosure must be submitted to the municipality within 90 days following the date the exemption condition ceases to be met.

■ Information required

The notice of disclosure of cessation of compliance with the exemption condition must contain the following information:

- where the transferor is a natural person, the person's last name and first name and the address of the person's principal residence, or the address where the account can be sent if it is different;
- where the transferor or the transferee is a legal person:
 - its name and the address of its head office or primary business office,
 - its Québec enterprise number or identification number, if applicable,
 - the name, position and contact information of the persons authorized to act in its name;
- the last names and first names of the professionals involved in the transfer of the immovable;
- the other particulars required in the application for registration of a deed of transfer in the land register pursuant to the first paragraph of section 9 of the Act, if they were omitted in the deed ascertaining the transfer of the immovable;
- the date on which the exemption condition ceased to be met as well as the documents ascertaining that date.

The notice of disclosure must be accompanied by an authentic copy of the notarial deed en minute or a copy of the deed under private signature ascertaining the transfer of the immovable, if it is not registered in the land register at the time of the disclosure.

The information contained in the notice will be transmitted by the municipalities to the Minister of Revenue in order to identify the transferee or transferees of the immovable that failed to disclose the cessation of compliance with the exemption condition.

■ **Collection period for transfer duties and interest**

The transfer duties resulting from cessation of compliance with the exemption condition will be payable by the thirty-first day following the sending of the account to the transferee by the municipality. It will bear interest from that day at the rate in effect for interest on arrears of such taxes.

■ **Prescription**

A claim respecting transfer duties resulting from cessation of compliance with the exemption condition is prescribed by three years from the day on which the notice of disclosure is filed with the municipality in whose territory the immovable is located, excluding any unpaid amount of such claim further to a statement that is fraudulent or tantamount to fraud.

For greater clarity, no period of prescription will begin to run in respect of a cessation of compliance with the exemption condition that has not been disclosed.

■ **Failure to file the notice of disclosure within the prescribed period**

The *Taxation Act* will be amended so that a transferee will be required to pay the Minister of Revenue special duties equal to 150% of the transfer duties payable in respect of the transfer of an immovable to the transferee if the latter fails to file with the municipality in whose territory the immovable is located, within the prescribed period, the notice of disclosure of cessation of compliance with the exemption condition.

The transferee of an immovable that fails to file the notice with the municipality concerned within the prescribed period will be required to pay, to the Minister of Revenue, interest calculated from the date beginning on which the transferee was in default of filing the notice until the date on which the Minister receives payment of the special duties.

Two-thirds of the special duties so collected by the Minister of Revenue will be remitted to the Minister of Municipal Affairs and Land Occupancy in order to be remitted to the municipality concerned.

More specifically, transfer duties resulting from the transfer of the immovable will not be required in addition to payment of the special duties on the same transfer. However, where the transferee pays the transfer duties to the municipality concerned even though the period for transmitting the notice of disclosure has expired, the transferee will be required to pay one-third of the special duties.

■ Voluntary disclosure

A transferee of an immovable that fails to file the notice with the municipality concerned within the prescribed period may make a disclosure under Revenu Québec's voluntary disclosure policy, provided the disclosure complies with the conditions applicable under that policy.⁸⁷

In such a case, Revenu Québec may waive payment of a maximum of one-sixth of the special duties.

■ Application date

These amendments will apply to the transfer of an immovable made after the day of the budget speech.

□ Restriction on application of the exemption provision for the transfer of an immovable between two closely related legal persons

In July 2002, the application of the exemption applicable for the transfer of an immovable between two closely related legal persons was extended so that the exemption would apply where at least 90% of the fair market value of all the issued and outstanding shares of the capital stock of a legal person is owned by a particular legal person.⁸⁸

However, it has become clear that it may be difficult, in practice, to ensure compliance with this exemption condition. Consequently, the provision granting exemption from paying transfer duties in such circumstances will be revoked.

The provision granting exemption from paying transfer duties where at least 90% of the fair market value of all the issued and outstanding shares of the capital stock of a legal person and a particular legal person is owned by either the same legal person or the same group of legal persons will also be revoked.

These amendments will apply in respect of the transfer of an immovable made after the day of the budget speech.

□ Anti-avoidance rule providing for imposition of special duties in respect of transfer duties

An anti-avoidance rule providing for the imposition of special duties in respect of transfer duties was introduced in 1993.⁸⁹

This rule, introduced by simultaneously amending the *Taxation Act* and the Act, was designed to restrict, in certain cases, use of the provisions granting exemption from paying transfer duties where the transferee is a legal person. At that time, it had become clear that the use of those provisions had given rise to certain forms of planning for the purpose of avoiding payment of transfer duties.

⁸⁷ REVENU QUÉBEC, *Interpretation Bulletin ADM. 4/R6*, "Voluntary Disclosure Program," May 22, 2015.

⁸⁸ MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2002-8*, July 11, 2002, pp. 60-63.

⁸⁹ MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 93-4*, October 8, 1993.

In view of the fact that certain provisions for exemption from paying transfer duties have been tightened, this anti-avoidance rule will be revoked.

This amendment will apply in respect of the transfer of an immovable made after the day of the budget speech.

3.1.2 Change to the transfer duties due date and introduction of a disclosure mechanism for transfers not registered in the land register

The Act provides that every municipality must collect duties on the transfer of any immovable situated in its territory. These transfer duties are payable from the time the deed ascertaining the transfer of the immovable is registered in the land register.

Thus, even though the claim relating to transfer duties arises at the time of an immovable's transfer, the possibility for the municipality to collect the claim is suspended until the deed ascertaining the transfer of the immovable is registered in the land register.

It has become clear that this feature of the Act may give rise to certain forms of planning in which deeds ascertaining the transfer of an immovable are not registered in the land register, the purpose being to indefinitely postpone payment of the transfer duties.

Consequently, an amendment will be made to the Act concerning the time when transfer duties become payable. In addition, a mechanism will be provided for disclosure of immovable transfers subject to the Act where the deeds ascertaining such transfers are not registered in the land register.

❑ Change to the transfer duties due date

The Act is designed to tax the transfer of an immovable, and not the registration in the land register of the deed ascertaining the transfer of the immovable.

Consequently, the Act will be amended so that the transfer duties will become payable as of the date of an immovable's transfer.

This amendment will apply in respect of the transfer of an immovable made after the day of the budget speech.

❑ Introduction of a disclosure mechanism for transfers not registered in the land register

The Act will be amended so as to require the transferee of an immovable to notify the municipality in whose territory the immovable is located where the deed ascertaining the transfer of the immovable is not registered in the land register.

If there is more than one transferee of an immovable, each transferee will be responsible for disclosing the transfer to the municipality. However, a disclosure made by one of the transferees in the name of all the transferees will be deemed to have been made by each of the transferees.

The notice of disclosure must be filed with the municipality within 90 days following the date of the immovable's transfer, unless the deed ascertaining it is registered in the land register by that date at the latest.

■ Information required

The notice disclosing the transfer of an immovable must contain the following information:

- where the transferor or the transferee is a natural person, the person's last name and first name and the address of the person's principal residence, or the address where the account can be sent if it is different;
- where the transferor or the transferee is an organization, a legal person, a partnership, a cooperative, an unincorporated association or a trust:
 - its name and, if applicable, the address of its head office or primary business office,
 - its Québec enterprise number or identification number, if applicable,
 - the name, position and contact information of the persons authorized to act in its name;
- the last names and first names of the professionals involved in the transfer of the immovable;
- the identity of the apparent owner mentioned in the deed registered in the land register;
- the other particulars required in the application for registration of a deed of transfer in the land register pursuant to the first paragraph of section 9 of the Act, if they were omitted in the deed ascertaining the transfer of the immovable.

The notice of disclosure must be accompanied by an authentic copy of the notarial deed en minute or a copy of the deed under private signature ascertaining the transfer of the immovable.

The information contained in the notice will be transmitted by the municipalities to the Minister of Revenue in order to identify the transferee or transferees of the immovable that failed to disclose its transfer.

■ Collection period for transfer duties and interest

The transfer duties resulting from the transfer of an immovable will be payable by the thirty-first day following the sending of the account to the transferee by the municipality. It will bear interest from that day at the rate in effect for interest on arrears of such taxes.

■ **Prescription**

A claim respecting transfer duties resulting from the transfer of an immovable is prescribed by three years from the day on which the notice of disclosure is filed with the municipality in whose territory the immovable is located, excluding any unpaid amount of such claim further to a statement that is fraudulent or tantamount to fraud.

More specifically, no period of prescription will begin to run in respect of a transfer of an immovable that has not been disclosed.

■ **Transfer duties payable only once**

The transferee of an immovable that pays the transfer duties further to the disclosure to the municipality of the immovable's transfer will not be required to pay the transfer duties when the act ascertaining the transfer is subsequently registered in the land register.

■ **Failure to file the notice of disclosure within the prescribed period**

The *Taxation Act* will be amended so that a transferee will be required to pay the Minister of Revenue special duties equal to 150% of the transfer duties payable in respect of the transfer of an immovable to the transferee if the latter fails to file with the municipality in whose territory the immovable is located, within the prescribed period, the notice of disclosure of the transfer.

The transferee of an immovable that fails to file the notice with the municipality concerned within the prescribed period will be required to pay, to the Minister of Revenue, interest calculated from the date beginning on which the transferee was in default of filing the notice of disclosure until the date on which the Minister receives payment of the special duties.

Two-thirds of the special duties so collected by the Minister of Revenue will be remitted to the Minister of Municipal Affairs and Land Occupancy in order to be remitted to the municipality concerned.

More specifically, transfer duties resulting from the transfer of the immovable will not be required in addition to payment of the special duties on the same transfer. However, where the transferee pays the transfer duties to the municipality concerned even though the period for transmitting the notice of disclosure has expired, the transferee will be required to pay one-third of the special duties.

For the purposes of the special duties, a provision granting exemption from paying the transfer duties will be deemed not to apply to a transfer of an immovable to which the special duties apply.

■ Voluntary disclosure

A transferee of an immovable that fails to file the notice with the municipality concerned within the prescribed period may make a disclosure under Revenu Québec's voluntary disclosure policy, provided the disclosure complies with the conditions applicable under that policy.⁹⁰

In such a case, Revenu Québec may waive payment of a maximum of one-sixth of the special duties.

■ Transfer duties payable only once

The transferee of an immovable that pays the special duties to the Minister of Revenue will not be required to pay the transfer duties to the municipality when the act ascertaining the transfer of the immovable is subsequently registered in the land register.

■ Application date

These amendments will apply to the transfer of an immovable made after the day of the budget speech.

3.1.3 Introduction of an exemption from paying transfer duties on the transfer of an immovable between former de facto spouses

The Act provides for an exemption from paying transfer duties on the transfer of an immovable between spouses. For the purposes of this exemption, "spouses" means married or civil union spouses or de facto spouses, that is, two persons of the opposite sex or the same sex who, on the date of the immovable's transfer, are living in a de facto union⁹¹ and, as applicable:

- have lived in a de facto union for a period of 12 months ending before the date of the transfer; or
- are the father and mother of a child.

However, the Act does not provide for an exemption from paying the transfer duties for a transfer between former spouses.

However, it has become clear that the absence of such an exemption may give rise to an unfair situation when an immovable is transferred between former de facto spouses.

⁹⁰ See note 87.

⁹¹ The Act provides that two persons of the opposite sex or the same sex who were living in a de facto union at any time before the date of the transfer are deemed to be living in a de facto union on that date, unless they are living apart on that date by reason of the breakdown of their union and the period during which they have lived apart has lasted at least 90 days and includes the date of the transfer.

To remedy this situation, the Act will be amended to introduce an exemption from paying duties on the transfer of an immovable between former de facto spouses within twelve months following the date they ceased to be spouses due to the breakdown of their union.

This amendment will apply in respect of the transfer of an immovable made after the day of the budget speech.

3.1.4 Recognition of an exemption from duties granted to certain international governmental organizations

When the Québec government receives in its territory an international governmental organization, it grants the organization, under an agreement, various exemptions and courtesy prerogatives to enable it to adequately fulfil its mission and to facilitate its task.

To date, all the agreements entered into with international governmental organizations that have established themselves in Québec provide for an exemption from the duties—transfer duties or special duties—imposed by the Act.

Consequently, amendments will be made to the Act to stipulate that a transferee that is an international governmental organization and has entered into an agreement with the government concerning its establishment in Quebec will be exempt from paying transfer duties and special duties in respect of the transfer of an immovable.

These amendments will be declaratory.

3.2 Changes to government assistance for capitalization of de Capital régional et coopératif Desjardins

The mission of Capital régional et coopératif Desjardins is to marshal development capital for Québec's resource regions and the cooperative movement.

Since Capital régional et coopératif Desjardins was formed, the government has supported its mission by allowing it to raise capital enjoying a tax benefit in the form of a non-refundable tax credit granted to individuals who become its shareholders. Currently, the rate of the tax credit applicable to the issue price paid for shares issued by Capital régional et coopératif Desjardins is 45%.

To reflect the fact that the financing of this fund is facilitated by granting a tax benefit, many measures have been taken over the years to govern the organization of the fund, to protect investors in the fund and to ensure that the fund adheres to its mission.

According to the *Act constituting Capital régional et coopératif Desjardins*, the fund can raise a maximum amount of \$150 million per capital-raising period,⁹² as long as it has not reached, for the first time, at the end of a capital-raising period, at least \$1.25 billion on account of paid-up capital regarding issued and outstanding shares and fractions of shares.

⁹² A capital-raising period begins March 1 of a year and ends the last day of February of the following year.

Once past the threshold, the maximum amount that Capital régional et coopératif Desjardins can collect for a capital-raising period corresponds to the reduction, up to \$150 million, of its paid-up capital attributable to redemptions or purchases by agreement made during the preceding capital-raising period.

Capital régional et coopératif Desjardins passed the \$1.25-billion threshold for the first time in 2013. For the first capital-raising period after it reached the threshold, the maximum amount of shares issued was nearly \$63 million.

Exceptionally, for its capital-raising period beginning March 1, 2015, and ending February 29, 2016, Capital régional et coopératif Desjardins was authorized to raise a maximum amount of \$150 million.

To further support the mission of Capital régional et coopératif Desjardins, it will be granted authorization to raise a maximum amount of \$135 million for the capital-raising period beginning March 1, 2016, and ending February 28, 2017, as well as for the period beginning March 1, 2017, and ending February 28, 2018.

Moreover, in view the fact that Capital régional et coopératif Desjardins, given its mission, has presented good historical returns, the applicable rate for the purposes of the calculation of the tax credit for the acquisition of its shares will be reduced from 45% to 40% for any share acquired after February 29, 2016. Accordingly, the maximum amount an individual may deduct, in calculating the tax otherwise payable for a particular taxation year, for shares acquired during a capital-raising period beginning in that year will decline from \$2 250 to \$2 000.

❑ Consequential change to the special tax relating to the recovery of the tax credit for the purchase of shares

The tax legislation stipulates that where a share (including a fraction of a share) is redeemed or purchased by Capital régional et coopératif Desjardins less than seven years after it was issued, the person who purchased the share (hereinafter, the “taker”) or the person to whom such share was passed on by succession must generally pay, for the taxation year during which the redemption or purchase is made, tax equal to the amount obtained by applying, to the lesser of the specified portion of the amount paid by the taker to acquire the share and the price paid by the fund for its redemption or its purchase by agreement, the percentage attributable to the number of days the share was not held.⁹³

To reflect the fact that the rate applicable for the purposes of calculating the tax credit will decline from 45% to 40%, the tax legislation will be amended to stipulate that, for any redemption or purchase made after December 31, 2015, the applicable rate for obtaining the specified portion of the amount paid by a taker to acquire a share of Capital régional et coopératif Desjardins will correspond to:

- 50%, where the share was issued before March 1, 2014;
- 45%, where the share was issued after February 28, 2014, and before March 1, 2016;

⁹³ This percentage is obtained by dividing, by 2 556, the amount by which 2 556 exceeds the number of days included in the period beginning the day the share is issued and ending the day of its redemption or purchase by agreement.

— 40%, where the share was issued after February 29, 2016.

❑ Consequential change to the special tax relating to excessive capitalization

The tax legislation stipulates that, where, at the end of a particular capital-raising period beginning after February 28, 2014, the amount of paid-up capital regarding all the shares and fractions of shares issued by Capital régional et coopératif Desjardins during that period exceeds the maximum amount it is authorized to collect for that period, the fund must pay, no later than the May 31 following the end of that period, a special tax equal to 45% of the amount by which the paid-up capital regarding all of the shares and fractions of shares issued during the capital-raising period exceeds the maximum amount it is authorized to collect for that period.

For a capital-raising period beginning after February 29, 2016, the applicable rate for the purposes of calculating the special tax will decline from 45% to 40% to reflect the reduction in the tax assistance allowed for the acquisition of shares issued by Capital régional et coopératif Desjardins.

3.3 Temporary maintenance of the increased rate of the tax credit for the acquisition of shares in Fondaction

Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi, is a labour-sponsored fund that, while making access to retirement savings easier for workers and the general public, contributes through its investments to maintaining and creating jobs and stimulating the Québec economy.

In carrying out its mission, Fondaction invests in companies involved in a participative management process as well as social economy businesses consisting of cooperatives and non-profit organizations. It also supports businesses that are sensitive to the environment and more sustainable development.

For over 20 years, the government has supported Fondaction and contributed to its growth by allowing it to collect capital enjoying a tax benefit in the form of a non-refundable tax credit granted to individuals who become its shareholders.

For six years, the tax credit for the acquisition of a class “A” or class “B” share or fractional share issued by Fondaction (hereinafter, “eligible share”) was calculated on the basis of a higher rate. Increased from 15% to 25% for any eligible share acquired after May 31, 2009 and before June 1, 2015, the higher tax credit rate was intended to enable Fondaction to achieve an optimal level of capitalization of \$1.25 billion.

As of the fiscal year beginning after May 31, 2015, the rate of the tax credit was to be reduced to 15%. However, to facilitate the transition, the tax credit rate was set at 20% for any eligible share acquired after May 31, 2015 and before June 1, 2016.

To enable Fondation to invest more in Québec businesses as a partner of the social economy and sustainable development, to reduce its operating costs in relation to its assets and to better diversify its portfolio, the rate of the tax credit will be maintained at 20% for any eligible share acquired during Fondation's next two fiscal years.

However, to control the tax expenditure attributable to this new support from the government, a limit will be imposed on the capital raised by Fondation.

More specifically, the amount of capital that may be raised must not exceed \$250 million for the fiscal year beginning June 1, 2016 and ending May 31, 2017 and, for the subsequent fiscal year, the total of \$250 million and the amount by which \$250 million exceeds the total of the amounts each of which is an amount paid during the fiscal year ending May 31, 2017 for the purchase of an eligible share as first acquirer.

In the event that, at the end of the fiscal year ending May 31, 2017 or that ending May 31, 2018, the amount of capital collected for the year exceeds the maximum amount authorized, Fondation will have to pay, no later than the ninetieth day following the end of the particular fiscal year, a tax equal to 20% of such excess amount.

In addition, to better reflect the fact that rate of the tax credit for the acquisition of Fondation shares will be maintained temporarily at 20%, amendments will be made to the tax regulations to stipulate that, where the amount of tax an employer must deduct from an employee's remuneration is not established according to an authorized mathematical formula, an amount equal to 100% of the amount deducted by the employer from the employee's remuneration in respect of the employee's acquisition of eligible shares issued by Fondation after May 31, 2015 and before June 1, 2018, must be deducted from the amount of remuneration paid to the employee to calculate the amount of the employee's pay subject to a source deduction.

Consequential amendments will also be made to the terms for calculating special taxes on the acquisition of replacement shares in conjunction with a share redemption to take advantage of the Home Buyers' Plan or the Lifelong Learning Incentive Plan, and to the terms for calculating the penalty that can be applied when, in a particular fiscal year, Fondation purchases by agreement class "A" shares of its capital stock and the total cost of the purchase exceeds 2% of its paid-up capital relating to shares making up its permanent capitalization.

3.4 Changes to the investment requirements for tax-advantaged funds

Since the creation of the Fonds de solidarité FTQ, Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi and Capital régional et coopératif Desjardins, the government has supported the growth of these investment funds by allowing them to collect capital enjoying a tax benefit consisting of a non-refundable tax credit to individuals who become their shareholders.

Since the financing of these funds is made easier by the granting of a tax benefit, an investment requirement was included in their statutes of incorporation to ensure, in particular, that the funds collected are used as a financing tool contributing to the development of Québec entities.

The requirement imposed on labour-sponsored funds requires that, for each fiscal year, their eligible investments represent, on average, at least 61%⁹⁴ of their average net assets for the preceding fiscal year.

Given the mission of Capital régional et coopératif Desjardins, its statutes of incorporation require that, for each fiscal year, its eligible investments represent, on average, at least 61%⁹⁵ of its average net assets for the preceding fiscal year, and that at least 35% of that percentage is made in eligible cooperatives or in entities located in Québec's resource regions.⁹⁶

If their investment requirement is not satisfied for a particular fiscal year, tax-advantaged funds are systematically limited in their capacity to issue shares during the following fiscal year.

Over the years, various changes have been made to the terms and conditions for calculating the investment requirements of tax-advantaged funds and to the list of eligible investments so that, for each tax-advantaged fund, the investment requirement is better adapted to its mission and to the capital requirements of Québec businesses.

The list of eligible investments for the purposes of the investment requirements comprises investments that entail no security or hypothec and that consist in, among other things, investments in eligible Québec enterprises, investments in major projects with a structuring effect on Québec's economy, strategic investments made in accordance with an investment policy approved by the Minister of Finance as well as investments made in certain local venture capital funds established and managed in Québec

⁹⁴ This percentage must, for each fiscal year beginning after May 31, 2016, increase by one percentage point until it reaches 65%.

⁹⁵ This percentage must, for each fiscal year beginning after December 31, 2016, increase by one percentage point until it reaches 65%.

⁹⁶ For the purposes of the regional component of the investment requirement of Capital régional et coopératif Desjardins, the regions of Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie-Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay-Lac-Saint-Jean are considered resource regions. Moreover, for the purposes of this component, eligible investments are considered to have been made in entities located in Québec's resource regions if they were made after December 31, 2013 and before January 1, 2018 in an entity located in the regional county municipalities of Acton, Antoine-Labelle, Argenteuil, Coaticook, L'Islet, La Vallée-de-la-Gatineau, Matawinie, Montmagny, Papineau, Pontiac, Appalaches, Etchemins, Les Sources, Le Granit, Le Haut-Saint-François and Le Haut-Saint-Laurent.

❑ Renewal of the local fund category

At present, investments considered eligible for the purposes of the investment requirement for each tax-advantaged fund consist of investments that include neither security nor hypothec made by a tax-advantaged fund, during a period beginning on April 22, 2005 and ending on May 31, 2016, in a local venture capital fund established and managed in Québec or in a local fund recognized by the Minister of Finance, provided that the investments are made with the expectation that an amount at least equal to 150% of the sums received from the tax-advantaged fund and, where applicable, from the two other tax-advantaged funds are invested by the local fund in Québec enterprises whose assets are less than \$100 million or whose net equity is less than \$50 million and the investments are not already taken into account as eligible investments for the purposes of the fund's investment requirement.

This category of investments (hereinafter, "local fund category") was created to structure a private venture capital industry that would offset the lack of capital for businesses in pre-startup or startup situations or for businesses operating in technology sectors.

Given that the development of entrepreneurship, mainly through the creation of small and medium-sized businesses, is a catalyst for Québec's economic growth, the investment period applicable to the local fund category will be extended to May 31, 2021.

Moreover, to take into account the higher risk associated with investments in the local fund category, the amount of investments included in this category is currently being raised by 50% for the purposes of calculating the investment requirement of a tax-advantaged fund for any fiscal year ending before January 1, 2017.

Given that the eligibility period for these investments will be extended, the amount of investments included in this category by a tax-advantaged fund may be raised by 50%, up to 5% of the fund's net assets at the end of the preceding fiscal year, for the purposes of calculating its investment requirement for any fiscal year of the fund ending before January 1, 2022.

❑ Limits applicable to certain types of investments made by the Fonds de solidarité FTQ

The statutes of incorporation of tax-advantaged funds limit, for the purposes of calculating the investment requirement imposed on the funds for a particular fiscal year, the eligibility of investments belonging to certain categories in accordance with a particular percentage of their net assets at the end of the preceding fiscal year.

Owing to the large size of the Fonds de solidarité FTQ and the investment strategy it intends to apply, changes will be made to the limits expressed as a percentage of its net assets at the end of a fiscal year preceding a particular fiscal year that apply in order to determine, for the purposes of calculating its investment requirement, the eligibility of investments belonging to certain categories of eligible investments.

The following table shows the limits that will be applicable to certain categories of eligible investments for the purposes of calculating the investment requirement of the Fonds de solidarité FTQ for any fiscal year beginning after May 31, 2016.

TABLE A.11

Limits applicable for a particular fiscal year to the eligibility of certain investments made by the Fonds de solidarité FTQ

(percentage of the fund's net assets at the end of the preceding fiscal year)

Categories of investments subject to a limit	Current situation	After May 31, 2016	Difference
– Investments made otherwise than as first acquirer for the acquisition of securities issued by eligible enterprises ⁽¹⁾ and reinvestment in enterprises ⁽²⁾ that were eligible enterprises at the time of the initial investment	20.0	12.5	– 7.5
– Investments made in new or substantially renovated income-producing immovables situated in Québec ⁽³⁾	5.0	5.0	—
– Strategic investments made in accordance with an investment policy approved by the Minister, in an enterprise whose assets are less than \$500 million or whose net equity is not over \$200 million	7.5	17.5	10.0
– Major investments made in a partnership or legal person or otherwise than as first acquirer for the acquisition of securities issued by a partnership or legal person, provided that the strategic value of the investments has been recognized by the Minister	10.0	10.0	—
– Investments made in accordance with a policy for investment outside Québec adopted by the Minister	10.0	7.5	–2.5
TOTAL	52.5	52.5	—

(1) An eligible enterprise is an enterprise in active operation, the majority of whose employees are resident in Québec and whose assets are less than \$100 million or whose net equity is less than \$50 million.

(2) The reinvestment must be made in an enterprise in active operation, the majority of whose employees are resident in Québec and whose assets are less than \$350 million or whose net equity is less than \$150 million.

(3) However, investments in immovables situated in Québec and intended mainly for the operation of shopping centres are not permitted under this investment category otherwise than as part of a project in the recreation and tourism sector.

3.5 Amendments to the *Mining Tax Act*

An operator is required to pay, for a fiscal year, mining duties equal to the greater of its minimum mining tax for the fiscal year or its mining tax on its annual profit, for the fiscal year.

Briefly, an operator's minimum mining tax for a fiscal year is equal to the aggregate of the amount obtained by applying a 1% tax rate to the first \$80 million of the operator's mine-mouth output value for the fiscal year, in respect of all mines operated by the operator, and of the amount obtained by applying a 4% tax rate to the amount by which the mine-mouth output value for the fiscal year, in respect of all mines operated by the operator, exceeds \$80 million.

An operator's mining tax on its annual profit, for a fiscal year, is equal to the total obtained by multiplying a portion of the operator's annual profit for the fiscal year, determined on the basis of the operator's profit margin, by the rates of 16%, 22% and 28%.

An operator's profit margin for a fiscal year is equal to the proportion represented by the ratio between the operator's annual profit for the fiscal year and the aggregate of all amounts each of which is the gross value of the operator's annual output for the fiscal year in respect of each mine operated by the operator.

Briefly, an operator's annual profit for a fiscal year is established by subtracting, from the aggregate annual earnings in respect of each mine operated by the operator during the fiscal year, certain expenses and allowances relating to the operator's mining operation for the fiscal year, in particular those attributable to exploration activities and pre-production development work carried out by the operator.

An operator's annual earnings in respect of a mine operated by the operator for a fiscal year correspond, in brief, to the aggregate of the gross value of the operator's annual output for the fiscal year attributable to the operation of the mine, and of recapture of the depreciation allowance for the fiscal year resulting from the alienation of depreciable property used in the operation of the mine, from which a series of expenses and allowances provided for in the mining duties regime are subtracted. These expenses and allowances include expenses incurred by the operator during the fiscal year to realize the gross value of the annual output attributable to the operation of the mine, the depreciation allowance, the processing allowance, and the terminal loss, where, at the end of the fiscal period, the operator is no longer the owner of property in a particular class used in the operation of the mine. The annual earnings of an operator, other than an eligible operator, in respect of a mine may not be negative.

The gross value of an operator's annual output from a mine for a fiscal year is the value of the mineral substances and processing products derived from the operator's mining operation for the fiscal year.

Given that, unlike most other mineral substances, there is no market price that makes it easy to know the value of a gemstone and the value of each gemstone must be established on the basis of its specific characteristics, the *Mining Tax Act* requires the gross value of gemstones to be determined by the operator and a valuator mandated by the Minister of Revenue. An operator is obliged to reimburse the Minister for the expenses incurred for the valuation of the gemstones by the valuator mandated by the Minister.

Lastly, where a person acquires depreciable property from another person to whom the person is related, the *Mining Tax Act* provides that a "rollover" applies to the transfer of the property, that is, that there is no immediate tax impact on the transfer. The transferor is therefore not required to include recapture of the excess deduction for depreciation allowance in the annual earnings derived from a mine for the fiscal year of the transfer, and may not deduct the terminal loss if the depreciation allowance was insufficient and there is no more property in the class at the end of the fiscal year.

Moreover, in the event that a person ceases, for an indeterminate period, all activities related to its mining operation, the person is deemed to have alienated, before the time at which ends the fiscal year in which the activities cease, all depreciable property used in its mining operation. The person must therefore include in its annual earnings from a mine for the fiscal year recapture of the depreciation allowance and may deduct the terminal loss from its annual earnings.

Various amendments will be made to the *Mining Tax Act*. These will bear first on the calculation of an operator's profit margin for the fiscal year in which the operator ceases all activities related to its mining operation. A condition will be added to those for transferring property, with no immediate tax impact, to another person to whom the person is related. An adjustment will be made to the proceeds of alienation of property, where the operator is deemed to have alienated the property before the cessation of all activities related to its mining operation and the operator alienated the property in the circumstances in which a rollover could have been applied to the transfer of the property. Lastly, changes will be made to the rules for determining the value of gemstones.

3.5.1 Change to the calculation of a person's profit margin for the fiscal year in which the person ceases to be an operator

So as to increase the mining tax payable by an operator when the operator's mining activities generate higher profits, the *Mining Tax Act* was amended to replace the single tax rate with progressive tax rates.⁹⁷

Thus, a tax rate of 16% applies to the portion of an operator's annual profit for a fiscal year that is attributable to the operator's segment of profit margin for the fiscal year not exceeding 35%. A tax rate of 22% applies to the portion of an operator's annual profit for a fiscal year that is attributable to the operator's segment of profit margin for the fiscal year exceeding 35% without exceeding 50%, and a tax rate of 28% applies to the portion of an operator's annual profit for a fiscal year that is attributable to the operator's segment of profit margin for the fiscal year exceeding 50%.

As indicated above, an operator's profit margin for a fiscal year is equal to the proportion represented by the ratio between the operator's annual profit for the fiscal year and the aggregate of all amounts each of which is the gross value of the operator's annual output for the fiscal year in respect of each mine operated by the operator.

Where the deemed alienation of each depreciable property of an operator for the fiscal year in which the operator ceases all activities related to its mining operation leads to recapture of the depreciation allowance, the operator's annual earnings from a mine operated by the operator and, consequently, the operator's annual profit for the fiscal year, will increase, without affecting the gross value of the operator's annual output from each mine operated by the operator for the fiscal period.

Thus, the high level of an operator's profit margin for the fiscal year in which the operator ceases all activities related to its mining operation could in fact stem from the deemed alienation of each depreciable property of the operator for the fiscal year.

⁹⁷ MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Information Bulletin* 2013-4, May 6, 2013, pp. 19-21.

Accordingly, the *Mining Tax Act* will be amended to allow an operator to elect, on its mining tax return for its fiscal year ended immediately before ceasing, for an indeterminate period, all activities related to its mining operation, to calculate its profit margin for the fiscal year by replacing the amount corresponding to its annual profit for the fiscal year by an amount corresponding to its adjusted annual profit for the fiscal year.

An operator's adjusted annual profit for the fiscal year ended immediately before the operator ceases, for an indeterminate period, all activities related to its mining operation will be calculated by applying all of the *Mining Tax Act* provisions pertaining to the calculation of an operator's annual profit for a fiscal year, except that:

- no amount will be included in an operator's annual earnings from a mine operated by the operator, for the fiscal year, respecting recapture of the depreciation allowance reasonably attributable to the operation of the mine;
- no amount will be deducted from an operator's annual earnings from a mine operated by the operator, for the fiscal year, respecting a terminal loss reasonably attributable to the operation of the mine.⁹⁸

Moreover, where the gross value of an operator's annual output for the fiscal year ended immediately before the operator ceases, for an indeterminate period, all activities related to its mining operation is equal to zero, a tax rate of 16% will apply to the calculation of the mining tax on its annual profit, for the fiscal year.

These amendments will apply to the determination of an operator's mining tax on its annual profit, for a fiscal year that begins after December 31, 2013.

3.5.2 Changes to the rules pertaining to the transfer of property with no immediate tax impact and the rules pertaining to the deemed alienation of property when a person ceases to be an operator

When a person (hereinafter, the “purchaser”) acquires depreciable property⁹⁹ from another person (hereinafter, the “former owner”) to whom the person is related, otherwise than as part of an amalgamation, the former owner is deemed to have alienated the property for proceeds of alienation equal to the proportion of the undepreciated capital cost of the class of property which includes the property represented by the ratio between the capital cost of the property to the former owner and the aggregate of all amounts each of which is the capital cost of a property of that class to the former owner.

⁹⁸ For greater clarity, an operator's adjusted annual profit for a fiscal year will be equal to the amount calculated in accordance with section 8 of the *Mining Tax Act* as if the fourth paragraph of the section were read without taking into account subparagraph e of subparagraph 1 or subparagraph f of subparagraph 2.

⁹⁹ Property described in section 9 of the *Mining Tax Act*.

The purchaser is deemed to have acquired the property for an amount equal to the capital cost of the property to the former owner and to have requested, as a depreciation allowance in respect of the property, an amount corresponding to the amount by which the capital cost of the property to the former owner exceeds the deemed proceeds of alienation of the property to the former owner. Thus, the property is transferred with no immediate tax impact.¹⁰⁰

For the purposes of these rules pertaining to the transfer of property with no immediate tax impact, the *Mining Tax Act* does not require the purchaser of the property to be an operator within the meaning of the *Mining Tax Act*.

In the absence of such a requirement, an operator may transfer property to a person to whom it is related without recapture of the excess deduction for depreciation allowance being included in the annual earnings from a mine operated by it, or without the terminal loss, where no property remains in the class at the end of the fiscal year and the depreciation allowance was insufficient, being deducted from the earnings. A purchaser that is not an operator within the meaning of the *Mining Tax Act* is not subject to the mining tax. As a result, recapture of the depreciation allowance or realization of the terminal loss, when the property ceases to be used in the mining operation of an operator, can prove to be problematic.

Moreover, an operator that ceases, for an indeterminate period, all activities related to its mining operation, the operator's fiscal year is deemed to end immediately before the time at which the activities cease.

So that, for the fiscal year, the portion of the depreciation allowance that was over-deducted is recaptured or the terminal loss is realized if the depreciation allowance was insufficient, the operator is deemed to alienate, at the time immediately before the time in which the fiscal year ends (hereinafter, the "time of the alienation"), each of its depreciable properties for proceeds of alienation equal to the lesser of the fair market value of the property at the time of the alienation and the capital cost of the property at that time.¹⁰¹

However, an operator's cessation of all activities related to its mining operation may be tied to the sale of all its property used in the activities.

In that situation, application of the presumption of alienation of an operator's depreciable property in the event of cessation of all activities related to its mining operation can cause the rules pertaining to the transfer of the property with no immediate tax impact to be inapplicable, although the conditions for such a transfer are otherwise met and the property continues to be used by an operator in activities related to its mining operation. In such a case, the transfer of the property with no immediate tax impact should therefore be allowed.

¹⁰⁰ These rules are set forth in section 35.4 of the *Mining Tax Act*.

¹⁰¹ These rules are set forth in section 10.18 of the *Mining Tax Act*.

❑ Addition of a condition to the rules pertaining to the transfer of property with no immediate tax impact

The *Mining Tax Act* will be amended so that the rules pertaining to the transfer of depreciable property with no immediate tax impact apply solely when the purchaser of the property, in addition to being a person related to the former owner, is an operator within the meaning of the *Mining Tax Act* for the fiscal year in which the purchaser acquires the property.

This amendment will apply to the transfer of property as of the day of the budget speech.

❑ Adjustment of the proceeds of alienation of property deemed to have been alienated when a person ceases to be an operator

The *Mining Tax Act* will also be amended so that, where, as part of a person's cessation of all activities related to the person's mining operation, the person alienates depreciable property in favour of a purchaser to whom it is related¹⁰² and who is an operator within the meaning of the *Mining Tax Act* for the fiscal year in which the purchaser acquires the property, the person is deemed to have alienated the property, at the time of the alienation,¹⁰³ for proceeds of alienation equal to the proportion of the undepreciated capital cost of the class including the property at that time represented by the ratio between the capital cost of the property at that time and the total capital cost of each property in the class of property at that time.

The proceeds of alienation of the property thus determined will also be used for the purposes of the rules pertaining to the transfer of property with no immediate tax effect.

These amendments will apply to the deemed disposition of property as of the day of the budget speech.

They may also apply to the deemed disposition of property after May 5, 2013, but no later than the day of the budget speech. To that end, the person and the purchaser must file a joint election with the Minister of Revenue no later than the last day of the six-month period beginning the day of the budget speech.

3.5.3 Changes to the rules pertaining to the determination of the value of gemstones

The rules pertaining to the determination of the value of gemstones set forth in the *Mining Tax Act* are similar to those applicable in other provinces, except as regards the reimbursement of expenses paid for services provided by an independent valuator.

In addition, having a valuator mandated by the Minister of Revenue determine the value of gemstones benefits first and foremost the government, since it ensures that an operator's mining tax for a fiscal year is calculated taking into account on the basis of an independent determination of the value of these mineral substances.

¹⁰² Under the rules set forth in Chapter IV of Title II of Book I of Part I of the *Taxation Act*.

¹⁰³ Within the meaning of the definition above.

Accordingly, the *Mining Tax Act* will be amended so that an operator is no longer required to reimburse the Minister for expenses paid for the services of a valuator mandated by the Minister for the purpose of determining the gross value of annual output of gemstones.

Moreover, the *Mining Tax Act* will also be amended to be made it mandatory for an operator to provide the facilities and equipment, other than computer equipment, enabling the valuator mandated by the Minister of Revenue to value the gemstones extracted from the mine.

These amendments will apply to an operator for a fiscal year ended after the day of the budget speech.

3.6 Allocation of a refund to stand in lieu of the financial guarantee required under the *Mining Act*

When a person entitled to a refund by reason of the application of a fiscal law is also a debtor under such a law or about to become so, the Minister may allocate the refund to the payment of the debt of that person, up to the amount of the debt, and give the person notice of it.¹⁰⁴

The refund may also be allocated to the payment of any amount for which that person is indebted to the State under a law other than a fiscal law specified in the *Regulation respecting fiscal administration*¹⁰⁵ or to stand in lieu of certain securities required under the application of the *Tax Administration Act*.¹⁰⁶

The *Mining Act* stipulates that any person required to submit a rehabilitation and restoration plan to the Minister of Energy and Natural Resources must furnish, in accordance with the standards established by regulation, a guarantee covering the anticipated cost of completing the work required under the plan.¹⁰⁷ This financial guarantee may take various forms, such as the deposit of the required amount with the Minister of Finance pursuant to the application of the *Deposit Act*.

Given the importance of furnishing this financial guarantee, the *Tax Administration Act* and the *Regulation respecting fiscal administration* will be amended to allow the Minister of Revenue to allocate any amount he must refund to a person under a tax law to stand in lieu of any part of the financial guarantee required under the application of the *Mining Act* which the person has not furnished.

The amount thus allocated will be deposited with the Minister of Finance pursuant to the application of the *Deposit Act*.

¹⁰⁴ *Tax Administration Act*, s. 31.

¹⁰⁵ The *Health Insurance Act* and the *Environment Quality Act* are among laws identified in section 31R1 of the Regulation.

¹⁰⁶ These are the securities required under the application of sections 17.2 and 17.4 of the *Tax Administration Act*.

¹⁰⁷ *Mining Act*, ss. 232.1 and 232.4, and *Regulation respecting mineral substances other than petroleum, natural gas and brine*, ss. 112 to 123.

This allocation will rank below the offsets and allocations provided for in the *Tax Administration Act*.¹⁰⁸

To protect the confidentiality of the information that must be provided for the purposes of such an allocation, the Commission d'accès à l'information du Québec must issue a notice respecting these amendments.

These amendments will apply to any part of a financial guarantee required under the application of the *Mining Act* which a person has not furnished after the bill and draft regulation giving force to these amendments are respectively assented to and passed.

3.7 Increase in the threshold for the tax exemption on logging operations

Québec's tax legislation stipulates that a taxpayer that is a corporation or an individual, including a trust, must pay, for a taxation year, tax equal to 10% of the aggregate of the taxpayer's income from logging operation for that year and of the taxpayer's share of the income from logging operations of a partnership of which the taxpayer is a member for a fiscal year of the partnership ending in that year.

Furthermore, the tax on logging operations is not payable by a taxpayer for a taxation year in respect of:

- the taxpayer's income from logging operations, if the income does not exceed \$10 000 for the year;
- the taxpayer's share of the income from logging operations of a partnership of which the taxpayer is a member, if the income does not exceed \$10 000 for the fiscal year of the partnership ending in the year.

Accordingly, if the income from logging operations of the taxpayer or the partnership, as applicable, exceeds \$10 000, the tax is then calculated on the total of the taxpayer's or partnership's income from logging operations.

However, the tax on logging operations has existed since 1962 and the \$10 000 exemption threshold has never been adjusted, with the result that certain categories of taxpayers not affected by this tax when it was introduced are now subject to the tax.

Consequently, the exemption threshold for the tax on logging operations will be raised from \$10 000 to \$65 000.

This amendment to the tax legislation will apply to a taxpayer's taxation year beginning after the day of the budget speech.

¹⁰⁸ For greater clarity, these offsets and allocations are those stipulated in sections 31 and 31.1.

3.8 Revision of the farm property tax credit program

Currently, the *Act respecting the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation* provides for a program—the farm property tax credit program—that is designed to pay a portion of the municipal and school taxes on immovables used for agricultural purposes and forming part of an agricultural operation registered with the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. So that the owners of such immovables can claim the farm property tax credit for a particular municipal fiscal period, several conditions must be met.

The farm property tax credit program was introduced to take into account the substantial investments required by agricultural activities compared to other sectors of the economy. It is also designed to ensure competitive tax treatment for Québec farmers compared to farmers in the other Canadian provinces, all of which offer measures to reduce the tax burden on farming businesses.

In the course of its work undertaken at the beginning of summer 2014, the Commission de révision permanente des programmes noted, among other things, the administrative burden and complexity of the farm property tax credit program given the numerous terms and conditions for obtaining a refund.

In its report presented in June 2015, it recommended that the government examine the program with a view to a complete overhaul.

The observations noted in regard to the program by the Commission de révision permanente des programmes called for measures to be taken to improve its management and streamline its application.

The government's analysis of the program pointed to the need to maintain tax relief in respect of municipal taxes on immovables belonging to a registered agricultural operation. However, this analysis revealed the need to simplify the eligibility conditions for the farm property tax credit and the terms for calculating the assistance granted.

Thus, while preserving the level of assistance and the method by which it is provided to the owners of such immovables, various changes will be made to the farm property tax credit program, which, as of January 1, 2017, will be integrated into the *Act respecting municipal taxation* and administered by Revenu Québec. In addition, given the nature of this program, the sums required for payment of the farm property tax credit will be drawn from the tax revenues collected under the *Taxation Act*.

❑ Simplification of the eligibility conditions

The eligibility conditions for the farm property tax credit program will be reduced from five to two and will refer solely to the agricultural operation's registration and location.

More specifically, a portion of the amount of municipal property taxes¹⁰⁹ and compensations for municipal services¹¹⁰ applicable in respect of an immovable belonging to an agricultural operation may be subject to a tax credit for a particular fiscal year, if the agricultural operation meets the following conditions:

- it is registered with the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation in accordance with the regulation adopted pursuant to section 36.15 of the *Act respecting the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation* at any time in the fiscal year for which a tax credit is claimed;
- it is included, in whole or in part, in an agricultural zone established pursuant to the *Act respecting the preservation of agricultural land and agricultural activities* at the time the claim for the tax credit is filed and was so included at any time in the fiscal year for which the tax credit is claimed.

A person wishing to claim a farm property tax credit must apply to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation using the prescribed form containing the prescribed information at the time the agricultural operation is registered or its registration is updated or renewed. The application is valid for a term not exceeding three years and must be renewed upon expiry of the registration of the agricultural operation.

If the operator is not the person in whose name the unit of assessment is entered on the assessment role, the application must be filed jointly with that person.

The application for payment of the tax credit must contain, in particular, the following information:

- the name, date of birth, social insurance number and mailing address of the operator and of any person in whose name a unit of assessment covered by the application is entered on the assessment role;
- the name of the agricultural operation and its department identification number (NIM);
- the fiscal year for which the application is made;
- the list and registration number of the units of assessment for which the application is made and the identification of the units of assessment that include an immovable leased by the agricultural operation.

As is presently the case, the right to claim a farm property tax credit for a particular fiscal year is extinguished if it is not exercised by December 31 of the fiscal year.

¹⁰⁹ A property tax is a tax or surtax that a local municipality imposes on an immovable or in respect of the immovable if the tax or surtax is imposed regardless of use.

¹¹⁰ A municipal service is a water, sewer, police, fire protection, recreation, cultural activities, roads, garbage removal or disposal, lighting, snow removal or septic tank cleaning service supplied by a municipality.

❑ Determination of the farm property tax credit

As of January 1, 2017, the farm property tax credit for a particular fiscal year will be equal to the amount obtained by applying, to the property taxes and compensations for municipal services that are eligible for that fiscal year in respect of an immovable belonging to an agricultural operation, the tax credit rate applicable for the fiscal year.

However, if an agricultural operation is not registered with the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation throughout the fiscal year, the tax credit will be granted solely in respect of the portion of the fiscal year during which the operation is registered.

The property taxes and compensation for municipal services that will be eligible for the tax credit are those that will become payable or will have been paid for a particular fiscal year.

They will be calculated for each assessment unit in proportion to the value of the immovables located in the agricultural zone and belonging to the agricultural operation in relation to the total value of the assessment unit.¹¹¹

As is presently the case, excluding the interest prescribed in section 248 of the *Act respecting municipal taxation*, the interest and penalties payable or paid on outstanding property taxes or compensations for municipal services will not be taken into account for the purposes of calculating the tax credit.

For greater clarity, school property taxes will no longer be taken into account for the purposes of calculating the farm property tax credit.

For the fiscal year beginning January 1, 2017, and for the fiscal year beginning January 1, 2018, the applicable tax credit rate will be 78%. To control the cost of the program, an automatic mechanism adjusting the tax credit rate will be introduced into the *Act respecting municipal taxation* for the fiscal years beginning after December 31, 2018.

More specifically, for a particular fiscal year beginning after December 31, 2018, the applicable tax credit rate will be equal to the lower of 78% and the rate determined according to the following formula:

$$\frac{1.05 \times A \times B}{C}$$

For the purposes of this formula:

- the letter A corresponds to the tax credit rate applicable for the fiscal year preceding the particular fiscal year;
- the letter B corresponds to the aggregate of the amounts each of which is an amount paid on account of the farm property tax credit for the second fiscal year preceding the particular fiscal year, provided the amount was paid during that fiscal year;

¹¹¹ This proportion will be established based on the account of property taxes or compensations sent by the local municipality.

- the letter C corresponds to the aggregate of the amounts each of which is an amount paid on account of the farm property tax credit for the fiscal year preceding the particular fiscal year, if the amount was paid no later than October 31 of that fiscal year.

Where the rate determined by the above formula has more than two decimals, only the first two are to be used and the second decimal must be increased by one unit if the third is greater than 4.

No later than December 15 of each year, Revenu Québec must publish on its website the tax credit rate that will be applicable for the fiscal year beginning on January 1 of the following year.

❑ Payment of the farm property tax credit

Before the beginning of a particular fiscal year, the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation will transmit to all local municipalities whose assessment role includes an immovable belonging to a registered agricultural operation the list of immovable in respect of which a farm property tax credit may be granted for the particular fiscal year.

As they currently do, local municipalities will deduct, from an account of property taxes or compensations for municipal services imposed for the fiscal year in respect of an assessment unit including an immovable belonging to a registered agricultural operation, a tax credit equal to the result obtain by applying the tax credit rate fixed for that fiscal year to the amount of eligible property taxes and compensations for municipal services.

The amount so deducted will be deemed to have been paid on account of the farm property tax credit.

Within 30 days following the sending of an account of property taxes or compensations for municipal services in respect of an assessment unit for which a local municipality has deducted a farm property tax credit, the local municipality must transmit to Revenu Québec, in prescribed form, the following information:¹¹²

- the name of the municipality and the geographic code assigned to it by the Institut de la statistique du Québec;
- the registration number of the unit as entered on the assessment roll;
- the date of the account of property taxes and compensations for municipal services;
- the period for which the amount of the tax or compensation is imposed;

¹¹² The information that must be transmitted to Revenu Québec is contained in the list of information that local municipalities currently must transmit to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation under section 13.2 of the *Regulation respecting the registration of agricultural operations and the payment of property taxes and compensations*.

- an indication of whether it is an account of taxes or compensations referred to in the second paragraph of section 81 of the *Act respecting municipal taxation*, an account relating to a tax supplement or any other account of taxes or compensations that is not referred to in that paragraph;
- the name and address of the debtor of the tax or compensation and, if the debtor is not the person in whose name the unit of assessment is entered on the assessment roll, the name and address of that person;
- the total value of the immovables included in the unit;
- the value of the part of the immovables forming part of the agricultural operation and situated in the agricultural zone;
- where applicable, the value of the part of the immovables forming part of the agricultural operation and situated elsewhere than in the agricultural zone;
- the total value of the buildings included in the unit and, if only part of the buildings forms part of the agricultural operation and is situated in the agricultural zone, the value of that part;
- the value and total area of the land included in the unit and, if only part of the land forms part of the agricultural operation and is situated in the agricultural zone, the value and area of that part;
- the total amount of property taxes and compensations attributable to the immovables forming part of the agricultural operation;
- the basic general property tax rate and, where that rate applies to immovables forming part of the agricultural operation, the amount of the tax;
- where applicable, the rate specific to the category of agricultural immovables applicable to the immovables forming part of the agricultural operation and the amount of the general property tax;
- the amount of any other property tax and any tariff or compensation applicable to the immovables forming part of the agricultural operation;
- the reduction rate and the amount of any adjustment applicable to the unit;
- the amount that the municipality will have deducted on account of the farm property tax credit;
- the amount of taxes and compensations that the local municipality was unable to credit or that it reimbursed, and the reason.

After receiving this information, Revenu Québec will pay the local municipality an amount equal to the farm property tax credit that it deducted from the account of property taxes or compensations for municipal services.

Furthermore, where a farm property tax credit could not be deducted by a local municipality from an account of property taxes or compensations for municipal services in respect of an assessment unit for a particular fiscal year, Revenu Québec will pay, directly to the person in whose name the assessment unit is entered on the role, the amount to which the person is entitled on account of the tax credit for the fiscal year, provided the person applied for it within the prescribed time limit.

However, if the amount deducted by a local municipality from an account of property taxes or compensations for municipal services exceeds the farm property tax credit that ought to have been granted, Revenu Québec will claim the excess amount deducted from the person in whose name the assessment unit is entered on the role.

Where Revenu Québec claims an excess amount paid to a person, the person must repay it within 30 days following the notice of claim. If the amount is not paid by the expiry of this time limit, it will bear interest at the rate fixed in the first paragraph of section 28 of the *Tax Administration Act*.

❑ Complementary or supplementary tax accounts for a fiscal year ended before January 1, 2017

If a local municipality transmits, after December 31, 2016, a complementary or supplementary tax account relating to a fiscal year ended before January 1, 2017, in respect of an assessment unit including an immovable belonging to an agricultural operation for which a farm property tax credit could be granted under the farm property tax credit program as it existed before it was revised, the amount that the local municipality must deduct from the complementary or supplementary tax account on account of the tax credit will be equal to the result obtained by applying a rate of 78% to the amount of eligible property taxes¹¹³ and, if applicable, eligible compensations for municipal services.

Local municipalities that have deducted such an amount from a complementary or supplementary tax account relating to a fiscal year ended before January 1, 2017, must contact Revenu Québec to obtain compensation.

3.9 Simplification of the registration procedure for charities

For the purposes of Québec tax legislation, a registered charity at a particular time is any charitable organization, any private foundation or any public foundation that is registered or deemed to be registered at that time as a charitable organization, a private foundation or a public foundation with the Minister.

¹¹³ For greater clarity, school property taxes must not be included in the calculation of eligible property taxes.

To that end, the tax regulations provide that, subject to the Minister's power to refuse or revoke a registration or modify a designation, any charitable organization, any private foundation or any public foundation that possesses valid registration as such under the *Income Tax Act* and has provided to the Minister, within 30 days following confirmation of registration as such under federal tax legislation, a true copy of the documents filed in support of the application for registration and reasonable proof of registration is also deemed to be registered with the Minister as a charitable organization, a private foundation or a public foundation, as applicable.

Currently, the formalities put in place by Québec have no equivalent elsewhere in Canada.

For the purposes of the tax systems of the other provinces, charitable organizations, private foundations and public foundations that are registered charities under federal fiscal legislation have no formality to accomplish in order for the receipts they issue to be recognized for the purposes of calculating tax relief for donations, regardless of the province in which they exercise their activities.

The receipts issued by a charity registered under the federal tax legislation that exercises all its activities in Québec are therefore automatically recognized for the purposes of the other provincial tax systems.

Accordingly, to ensure equivalent treatment, the tax regulations will be amended to stipulate that, subject to the Minister's power to refuse, cancel, or revoke a registration or to modify a designation, a charitable organization, a private foundation, a public foundation or a division—a branch, section, parish, congregation or other division—of a charitable organization, private foundation or public foundation that possesses valid registration as a charitable organization, a private foundation or a public foundation under federal tax legislation will be deemed to also be registered as such with the Minister.

This amendment will apply as of January 1, 2016.

In addition, donations made before January 1, 2016 to an organization that, at the time of the donation, was a charity registered for the purposes of the federal tax legislation will be, for the purposes of the deduction for gifts or the non-refundable tax credit for gifts granted by the Québec tax system, deemed to have been made to a registered charity, unless, at that time, the Minister had refused to register it as a charitable organization, private foundation or public foundation or had cancelled or revoked its registration.

Section B

ENHANCED REGULATION OF THE FINANCIAL SECTOR

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1. THE IMPORTANCE OF THE FINANCIAL SECTOR

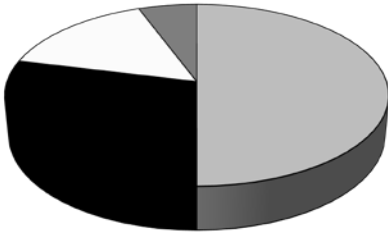
The financial sector is contributing significantly to growth in the Québec economy and the betterment of the population. It is enabling Quebecers to accumulate wealth and bolster their financial security by protecting their assets. It also finances the projects of entrepreneurs, thereby supporting and creating jobs.

The financial sector alone accounts for roughly 6.2% of gross domestic product, equivalent to \$19 billion. It generates nearly 150 000 jobs, equivalent to 4.3% of overall employment in Québec.

CHART B.1

Contribution to the economy of financial services (billions of dollars)

- \$9.7 billion Deposit-taking institutions
- \$5.6 billion Insurance
- \$3.0 billion Financial investment services
- \$1.1 billion Other

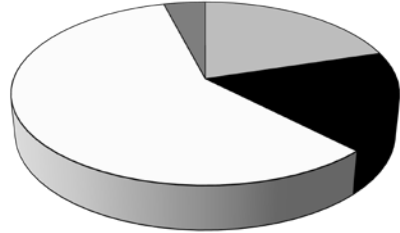


Source: Institut de la statistique du Québec. PIB et indice de concentration géographique des services financiers, Canada et provinces, revised data for 2014.

CHART B.2

The financial services industry (number of individuals)

- 63 508 Deposit-taking institutions
- 55 243 Insurance
- 18 348 Financial investment services
- 12 702 Other



Source: Institut de la statistique du Québec. Emplois salariés et rémunération de l'industrie des services financiers, Canada et provinces, 2015 edition.

The smooth operation of the sector hinges on modern corporate legislation and public trust, which explains the need to properly oversee it, bearing in mind the changing business environment.

Technological developments in recent years have enabled financial institutions to not only create new products but also to elaborate new business models that satisfy the expectations of their clientele.

Each statute is intended to protect the public interest, which is best served by legislation that allows consumers to benefit from the potential that the new technologies and new business models offer in a regulatory framework that adequately protects them, overseen by effective and efficient regulating authorities.

It is, therefore, imperative to ensure that financial sector regulation is adapted to new realities.

Since the regulatory structure of the financial sector also plays a key role in maintaining public trust in the sector, there is also good reason to make changes to it. The public must rely on supervisory authorities whose operating rules and powers enable them to remain effective despite changing markets.

Bearing in mind these concerns, reports have been tabled in recent years in the National Assembly focusing on the application of:

- the *Act respecting insurance* and the *Act respecting trust companies and savings companies* (April 30, 2013);
- the *Act respecting financial services cooperatives* (December 5, 2013);
- the *Securities Act* (May 29, 2014);
- the *Act respecting the distribution of financial products and services* (June 12, 2015);
- the *Derivatives Act* (June 12, 2015).

The government also tabled a report on the application of the *Real Estate Brokerage Act* (June 12, 2015).

The reports assessed the effectiveness of each statute in attaining the government's objectives. They also presented the key challenges that the sectors concerned are facing and the legislative options geared to meeting the challenges.

All interested parties were able to react to the observations and proposals presented in the reports.

The government now intends to undertake a comprehensive legislative reform that stems principally from the observations and recommendations, and comments from the public. The reform will be carried out through a single bill, which will preserve the coherence of the regulatory framework.

2. THE KEY LEGISLATIVE AMENDMENTS

Reform is necessary to ensure that Québec remains a jurisdiction recognized for the sound oversight of its financial sector. The reform will modernize the functioning both of financial institutions and regulating authorities. It will open new possibilities for the former and will give the latter powers better adapted to changing trends. The reform will lead to a more effective regulatory framework and regulatory streamlining that promotes the interests of consumers of financial products and services.

2.1 *The Act respecting the Autorité des marchés financiers*

The *Act respecting the Autorité des marchés financiers* (AAMF) established the Autorité des marchés financiers (AMF) and the Bureau de décision et de révision (BDR)¹ and the overall rules governing their operation. Most of the AMF's supervision and intervention powers are found in sectoral legislation, although they are more or less the same from one statute to the next.

At the time of its creation, on February 1, 2004, the AMF was assigned most of the responsibilities respecting oversight of the regulating authorities at that time, in particular the Inspector General of Financial Institutions, the Commission des valeurs mobilières du Québec (CVMQ) and the Bureau des services financiers.

The BDR was assigned the quasi-jurisdictional functions of the CVMQ. Since then, the administrative tribunal's responsibilities have been broadened considerably beyond securities.

The legislative amendments to be proposed seek, by and large, to enhance the mode of operation of the AMF and the BDR. The measures will make them more effective and efficient.

¹ Section 160 of Bill 74, the *Act respecting mainly the implementation of certain provisions of the Budget Speech of 26 March 2015*, makes provision for the replacement of the name of the Bureau de décision et de révision by the Tribunal administratif des marchés financiers.

2.1.1 Proposed amendments

The following changes will be made with regard to the functioning of the AMF:

- make provision for the establishment of an advisory committee representative of investors, savers and the consumers of financial products and services that is responsible for promoting their interests in the AMF;
- fund in the future the AMF's educational mission from its revenues instead of by means of penalties and fines;
- amend the approval formula respecting budget forecasts and abandon the approval of the AMF's strategic plan to afford it greater flexibility in the management of its resources and to recognize its operational independence;
- review the method of invoicing the contributions of financial institutions such that they are established based on budget forecasts and adjusted at the fiscal year-end;
- standardize the administration of trust funds under the responsibility of the AMF;
- review the rules governing the independence of the members of the Conseil consultatif de régie administrative.

The following changes will be made as regards the functioning of the BDR:

- relax the budget forecast approval procedure to acknowledge the BDR's operational independence;
- empower the BDR to adopt by-laws governing the procedure for recruiting and selecting its members and renewing their mandates;
- make provision to bolster standards that ensure the independence and impartiality of the members of the BDR and adopt measures to enhance the accessibility and effectiveness of this administrative tribunal.

The entire array of the AMF's inspection and investigation powers will be brought under the AAMF and will be simplified and standardized.

Lastly, the name of the AAMF will be changed to the *Act respecting the regulation of the financial sector*.

2.2 The *Act respecting insurance* and the *Act respecting trust companies and savings companies*

According to the AMF's *Rapport annuel sur les institutions financières 2014*, as of December 31, 2014, there were 273 insurers authorized to pursue activities in Québec, of which 70 were incorporated pursuant to Québec legislation. In 2014, the insurers shared nearly \$24 billion in direct premiums subscribed in Québec, including \$15 billion in insurance of persons and \$9 billion in damage insurance. As of December 31, 2014, 45 trust companies and savings companies, including two trust companies incorporated in Québec, were authorized to do business there and had total assets on the order of \$317.3 billion.

The report on the application of the two statutes tabled in the National Assembly in April 2013 contained 50-odd recommendations covering the effectiveness of the legislation, the corporate organization of insurers, the AMF's powers, and protection of the public. More than a dozen insurers made comments during the ensuing consultation.

As for the *Act respecting insurance*, while it has been substantially amended over time, the review reveals that the Act requires sweeping reform.

The reform will propose legislative amendments focusing on the functioning of different types of insurers, the operations in which they can engage, and the supervisory and intervention powers of the AMF.

2.2.1 Proposed amendments

A new *Insurers Act* will be proposed, in particular to:

- modernize law pertaining to the functioning of Québec-chartered insurers;
- simplify the regime applicable to the professional liability insurance funds of professional corporations and similar organizations;
- introduce oversight adapted to reciprocal insurers;
- establish a framework applicable to insurers for online insurance sales;
- modify the respective roles of the government, the Minister and the AMF, in particular concerning the adoption of regulations;
- specify the AMF's means of intervention;
- modernize penal law and the administrative penalty system.

The government will also propose the adoption of a new statute governing trust companies and savings companies that draws inspiration from the *Insurers Act*.

2.3 The *Act respecting financial services cooperatives* and the *Deposit Insurance Act*

The *Act respecting financial services cooperatives* (AFSC) applies to all financial services cooperatives incorporated in Québec.² With more than 7 million members and clients and 45 966 employees,³ the Mouvement Desjardins is the world's sixth largest financial cooperative group,⁴ Canada's sixth largest deposit-taking institution and the biggest such institution in Québec. As of December 31, 2014, it comprised 344 *caisses*,⁵ the Fédération des caisses Desjardins du Québec (the Fédération), the Caisse centrale Desjardins and the Fonds de sécurité Desjardins, and its overall assets at that time totalled more the \$229 billion.⁶

The Mouvement Desjardins controls numerous subsidiaries, in particular in the realms of insurance of persons and damage insurance, securities, venture capital and asset management.

The report on the application of the AFSC noted the need to adapt legislation to international requirements and changes in the Mouvement Desjardins. It indicated the importance of maintaining the AFSC as the ideal platform for the incorporation and operation of cooperative deposit-taking and financial services institutions in Québec and the utility of raising their profile across Canada. It also made provision for the possibility for cooperatives incorporated in other provinces to open service points in Québec.

Overall, the Mouvement Desjardins is a financial institution of systemic importance for Québec. It must develop in a regulatory framework that conforms to international rules, especially those governing capitalization, risk management and troubleshooting, usually called Basel III. The legislative amendments to the AFSC and the *Deposit Insurance Act* (DIA) seek to integrate these rules. In particular, they will make provision for recovery and resolution measures in the event of failures. Moreover, the amendments will bolster financial solidarity between the cooperatives in the group, thereby enhancing the powers of the Fédération, and will facilitate the capitalization of the cooperative group.

² With the exception of the Caisse des Mutualistes, an independent cooperative based in Mont-Joli, all of these cooperatives are part of the Mouvement Desjardins.

³ <https://www.desjardins.com/a-propos/desjardins/qui-nous-sommes/en-chiffres/index.jsp>

⁴ <https://desjardins.com/ressources/pdf/20160225-f.pdf>

⁵ Autorité des marchés financiers, *Rapport annuel sur les institutions financières 2014*, pages 7 and 13.

⁶ See note 3.

2.3.1 Proposed amendments

For the AFSC, the aim as regards capitalization and risk management for the Mouvement Desjardins is, in particular, to:

- implement a multilateral financial solidarity mechanism based on the existing Fonds de sécurité, between the *caisses*, the Fédération and the Caisse centrale Desjardins;
- stipulate, consequently, that the *caisses* cannot leave the Fédération;
- allow for the issuing of shares to non-members and the conversion of already issued shares with redemption rights;
- bolster the notion of the cooperative group by stipulating that the directors and executive officers of each of the cooperatives must act in the general interest of the group and by attributing powers of intervention to different bodies of the group.

To enable the cooperative group to adopt extraordinary measures to prevent or manage internal problems that may affect its financial situation, the AFSC will be amended to give the appropriate decision-making bodies the power, in particular, to:

- replace a director or an executive officer of a *caisse*, revoke a board of directors, prohibit the distribution of overpayments and set interest rates on savings, credit and share capital;
- force, without impact on creditors or depositors, the takeover of one *caisse* by another or the liquidation of a *caisse* in difficulty;
- impose the maintenance of a turnaround plan, approved by the AMF.

The AMF will be empowered to demand of a cooperative group that it take the necessary steps to ensure the effectiveness of the turnaround plan.

To enable the Mouvement Desjardins to respond effectively to the needs of its members, the AFSC will be amended to:

- make provision for recognition by all of the components of the Mouvement Desjardins of the rights and obligations of the Desjardins member, regardless of the *caisse* in which the member acquired them.

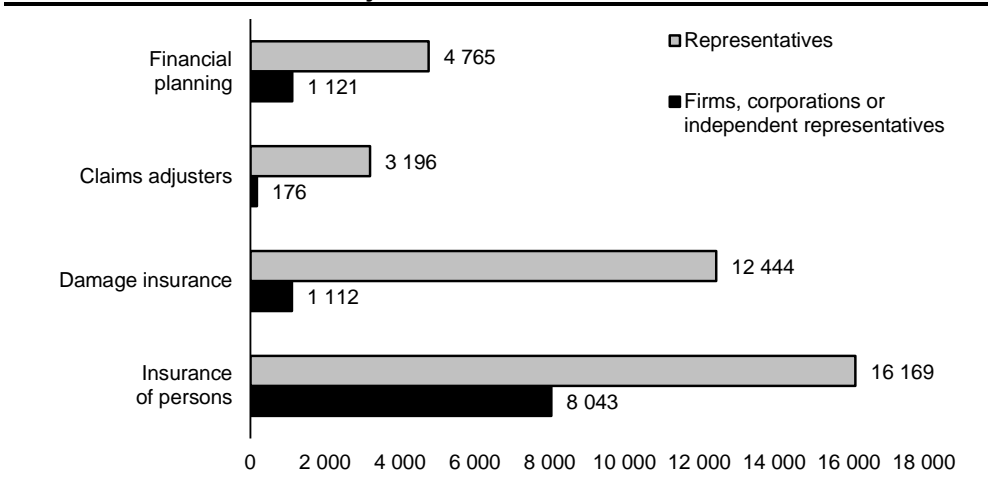
Furthermore, the DIA will be amended to introduce powers that will, in accordance with international rules, allow for the maintenance of the cooperative group's essential activities, under the control of a Resolution College, were a major crisis to arise. The College, made up of the president of the AMF, the Deputy Minister of Finance and a third person appointed by the Minister, would be responsible for approving or making decisions during a resolution process.

2.4 The Act respecting the distribution of financial products and services

The *Act respecting the distribution of financial products and services* (ADFPS) governs representatives in the insurance of persons and damage insurance sectors and claims adjusters and financial planners. The regulation adopted pursuant to the Act also determines the professional code of ethics of mutual fund dealer representatives and scholarship plan dealer representatives, who are governed by the *Securities Act* (SA).

CHART B.3

Financial intermediaries subject to the Act



Source: Autorité des marchés financiers, *Rapport annuel 2014-2015*.

The report on the application of the ADFPS examined three key topics, i.e. trends in the realm of distribution, oversight of representatives, and compensation in the event of fraud. The consultation that followed the submission of the report elicited numerous comments. Indeed, more than 300 briefs and letters were received, which clearly reflects the sector's importance and the interest that it arouses.

While the Québec Task Force on Financial Sector Regulation (the Martineau Report)⁷ recommended the creation of a single outlet for consumers and registrants, the government at the time decided to divide responsibility for the application of the ADFPS between the AMF, the Chambre de la sécurité financière and the Chambre de l'assurance de dommages.

This division clearly posed certain specific challenges, including:

- confusion among consumers concerning each regulatory body's role;
- a heavier regulatory and pecuniary burden for industry participants;
- the obligation for financial institutions and firms to do business with several oversight bodies.

2.4.1 Proposed amendments

The proposed amendments will seek to enhance the regulatory framework. Accordingly, the framework will ensure that the AMF has at its disposal all of the tools to deal promptly with firms and representatives at fault.

As for the Fonds d'indemnisation des services financiers, the ADFPS will be amended such that it covers all investors who are the victims of fraud committed by a duly certified intermediary, regardless of the nature of the financial product in question. An independent compensation committee whose members will be appointed by the Minister will be responsible for approving claims for compensation and a mechanism to review the decisions before the BDR will be implemented.

What is more, the rules governing distribution without representative will be amended to further empower the insurers who resort to it.

⁷ A Streamlined Regulatory Structure for Québec's Financial Sector, December 2001.

2.4.2 The *Derivatives Act*

As the *Report on the Application of the Derivatives Act* noted, in Québec there are 93 companies registered as derivatives dealers, six qualified or exempt persons, six exchanges and nine trading platforms, and six recognized clearing houses or clearing houses exempt from the obligation to be recognized.

Accordingly, the report concluded that the *Derivatives Act* (DA) had properly fulfilled its objective of providing modern oversight of public derivatives markets. Since the 2008 financial crisis, regulating authorities have focused on the transparency of OTC derivatives markets, a facet excluded from the DA when it was drafted.

Certain facets of the DA will, therefore, be reviewed to respond to the major regulatory initiatives at the international level in the wake of the G20's recommendations.

2.4.3 Proposed amendments

Legislative amendments will, in particular, make the definition of a “standardized derivative” conform to the international meaning and oversee electronic trading systems on the OTC derivatives market.

The DA will also be amended to facilitate its application and avoid problems of interpretation.

2.4.4 The *Securities Act*

As the *Report on the Application of the Securities Act* noted, the Act has evolved constantly since its adoption in 1982. Since 2004, it has been amended on numerous occasions in conjunction with harmonization efforts with the other provinces and territories. Moreover, the report proposed that harmonization initiatives be pursued, bearing in mind the needs of Québec participants. The ability of each province to adapt oversight on its securities market to its specific needs is the key advantage of this decentralized system.

The SA therefore requires only limited amendments to maintain the harmonization with the other provinces and territories and to comply with international best practices and the principles of the supervisory and regulatory rules governing markets of the International Organization of Securities Commissions.

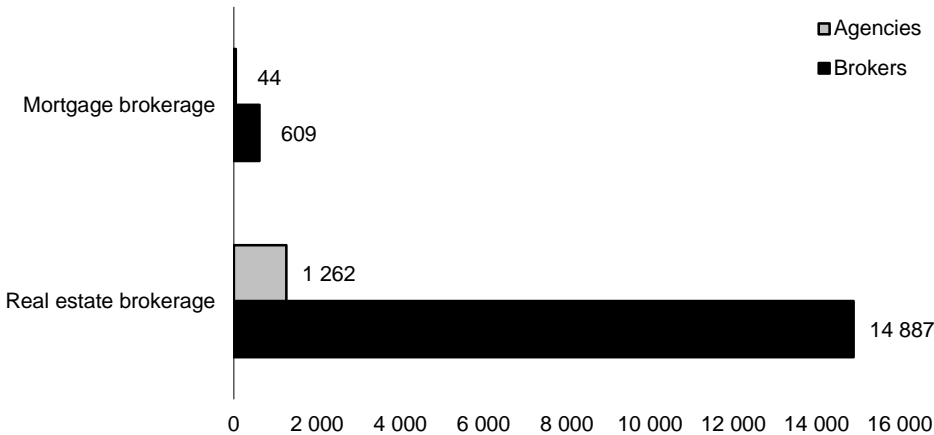
Furthermore, to maintain business models stemming from the multidisciplinary allowed in Québec, the SA will be amended to allow the sharing of a commission with the firm on behalf of which a representative acts, as now stipulated in the ADFPS.

2.5 The Real Estate Brokerage Act

The *Real Estate Brokerage Act* (REBA) applies to real estate brokers and mortgage brokers and real estate agencies and mortgage agencies. The Organisme d'autoréglementation du courtage immobilier du Québec (OACIQ) administers the Act.

CHART B.4

Intermediaries in the real estate sector



Source: Compilation of the MFQ, *Rapport annuel 2014 OACIQ*.

The key challenges that the *Report on the Application of the Real Estate Brokerage Act* raised focused on the scope of application of the Act, including the notion of brokerage, and the functioning of the regulatory body.

2.5.1 Proposed amendments

The REBA will be amended to:

- clarify the notion of brokerage;
- exclude rental property brokerage from the activities reserved for real estate brokers. Brokers will, however, be able to continue to offer this service and their clientele will then be protected by the Act;
- transfer oversight of mortgage brokerage, a financial service, in the ADFPS as a new discipline that the AMF will supervise.

What is more, the governance of the OACIQ will be modified to better reflect its mission to protect the public:

- in future, the board of directors will comprise a number of directors appointed by the Minister equivalent to the number of directors elected by the brokers;
- the chair of the board of directors will be elected from among the directors appointed by the Minister.

Lastly, the Minister will be empowered to determine the contents of the forms and contracts that brokers must necessarily use.

3. THE DEFENCE OF QUÉBEC'S CONSTITUTIONAL POWERS IN THE REALM OF SECURITIES

In the early 20th century the Canadian provinces adopted, pursuant to their jurisdiction over property and civil law, securities legislation that drew inspiration from the initial legislation that the American states adopted at the time.

Today, the securities monitoring regime that the provinces have established and administer is acknowledged to be one of the best in the world. Despite its considerable success, the federal government continues to seek to regulate securities on behalf of the provinces.

Ottawa's most serious initiative in this respect began in 2007 and still has not been abandoned despite unanimous repudiation by the Supreme Court in 2001, which confirmed the decisions of the Québec Court of Appeal and the Alberta Court of Appeal.

The federal government is thus persisting in its attempt to establish a centralized system that would, in concrete terms, deprive Québec of part of its powers granted by the Constitution to oversee Quebecers' interests by regulating the financial sector.

The decisive role that financial markets and the securities and derivatives sectors play in the economy makes them too important to allow a central body whose legal foundations could be contested to oversee them.

Once again, Québec has had to turn to the courts to thwart this latest attempt by the federal government to interfere with what is an exclusive provincial field of jurisdiction. On July 7, 2015, it asked the Québec Court of Appeal to give a verdict on the validity of the federal proposal.

The case is to be heard in November 2016.

CONCLUSION

The smooth functioning of the economy depends on an efficient financial sector. The government must, therefore, ensure that the legislation contributes to the achievement of this end. The legislation must ensure that consumers buy the financial products and services that they need at the best possible cost and under a regulatory framework that properly protects them. To this end, the rules must minimize the regulatory burden and be applied by effective and efficient bodies.

The revision of the entire array of financial sector legislation will establish the basis for integrated, coherent oversight entirely dedicated to the promotion of Quebecers' interests. Such oversight will foster the maintenance of a climate of trust that will benefit everyone.

The Québec economy overall will benefit from the reform. There is something in it for everybody.

APPENDIX: STATUTES THAT WILL BE AMENDED OR REPLACED

Act respecting prearranged funeral services and sepultures (chapter A-23.001)

Automobile Insurance Act (chapter A-25)

Deposit Insurance Act (chapter A-26)

Act respecting insurance (chapter A-32)

Act respecting the Autorité des marchés financiers (chapter A-33.2)

Civil Code of Québec (chapter C-12)

Act respecting financial services cooperatives (chapter C-67.3)

Real Estate Brokerage Act (chapter C-73.2)

Act respecting the distribution of financial products and services (chapter D-9.2)

Money-Services Businesses Act (chapter E-12.000001)

Derivatives Act (chapter A-14.01)

Act respecting trust companies and savings companies (chapter S-29.01)

Securities Act (chapter V-1.1)

Act respecting the Mouvement Desjardins (2000, chapter 77)

Section C

THE FIGHT AGAINST TAX EVASION

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INTRODUCTION

Funding of the basket of public services that Quebecers have collectively given themselves requires a contribution from all taxpayers. In accordance with the tax system, everyone must make a fair contribution to this collective effort. Social fairness is also a matter of ensuring that all Quebecers pay their fair share of taxes.

However, there is a gap between the tax revenue owed to the government and the tax revenue that is actually collected. This gap, or these tax losses, can be attributed to:

- tax evasion, which results from illegal acts;
- tax avoidance, which is fostered by the existence of tax planning that sometimes makes use of tax havens.

The funding of public services is being undermined by these two practices that reduce the government's revenue base. Therefore, the government is making the fight against tax evasion and tax avoidance a priority.

This section presents the results of the efforts being deployed in this fight, which are based on the work of several government partners, be they Revenu Québec, regulatory bodies in the construction sector, police forces, other stakeholders involved in the administration of justice, as well as new initiatives implemented to limit the government's tax losses.

This section also presents the actions that will be taken in 2016-2017 by Revenu Québec, a key player in the collection of government revenue, in order to improve its performance and efficiency. Some of these actions will be taken to improve the quality of relations with taxpayers, in response to requests from the Québec Ombudsman.

1. THE FIGHT AGAINST TAX EVASION

Tax revenue plays an essential role in the funding of public services. The government must collect the full amount of revenue owed to it, not only to preserve this funding but also for reasons of fairness among taxpayers.

1.1 Tax losses

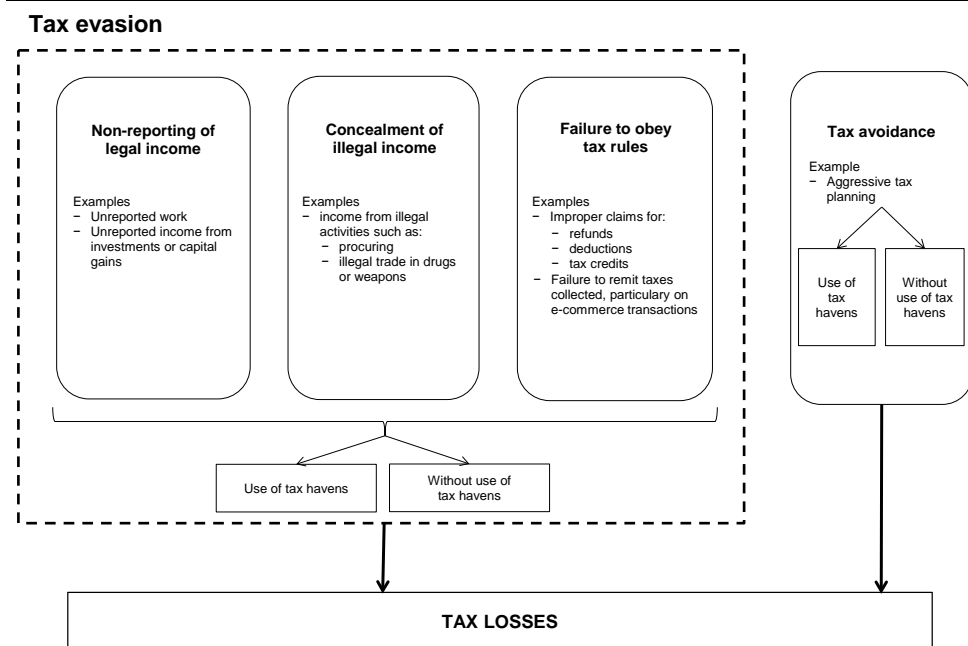
The tax losses that a government may incur represent the difference between the tax revenue owed to it under existing laws and regulations and the tax revenue that is actually collected.

1.1.1 The four sources of tax losses

There are four sources of tax losses. The first three have in common the fact that they result from illegal acts. They are usually all referred to as tax evasion. The fourth involves tax avoidance.

ILLUSTRATION C.1

Illustration of how tax losses originate



Source: Ministère des Finances du Québec.

■ **Non-reporting of legal income**

The first source of tax losses corresponds to legal income that taxpayers fail to report in whole or in part.

The activity that makes it possible to obtain this income is legal. The concealment of all or part of this income for income tax purposes is illegal.

When income derived from employment is not reported, this amounts to unreported work. Unreported income can also come from investments or capital gains.

■ **Concealment of illegal income**

The second source includes tax losses stemming from non-taxation of illegal income.

Revenue from illegal and criminal activities is taxable under tax laws. Because of its nature, income generated by this type of activities is not reported to the government, leading to a tax loss.

■ **Failure to obey tax rules**

The third source includes tax losses arising from non-compliance with tax rules.

Taxpayers submit fraudulent claims for tax credits, refunds or deductions arising, for example, from false-billing, or they fail to remit taxes collected in the course of their activities, such as those linked to e-commerce transactions.

■ **Tax avoidance**

The fourth source involves tax avoidance. This category of tax losses corresponds to interpretations of the law that approach the limits of legality. The use of such procedures does not violate any particular legal rule, but it does not comply with the spirit of the law.

This source includes aggressive tax planning, which reduces income tax through often complex financial transactions, without it being possible *a priori* to determine whether or not such reductions comply with the spirit of the law.

1.1.2 Use of tax havens

Tax havens constitute, in particular, a shelter for earnings derived from tax evasion by making such earnings difficult to detect. Generally speaking, they all:

- offer a tax system whose administration lacks transparency and whose income taxes are very low, if not non-existent;
- have very strict laws on the protection of bank secrecy;
- do not offer any real exchange of information with other countries.

Individuals generally use tax havens to evade tax or to launder money. Businesses, for their part, use them to reduce or eliminate taxation of their profits.

Estimation of tax losses for Québec

In the fall of 2015, as part of the preparation of a brief on tax havens tabled in the National Assembly,¹ the Ministère des Finances du Québec partially updated the assessment of tax losses stemming from the underground economy for 2013. It extrapolated what tax losses from tax havens could represent for Québec if the parameters contained in studies on this question were applied. These estimates do not measure the total tax losses for Québec.

Tax losses related to unreported legal income

Tax losses stemming from the underground economy in 2013 have been estimated at approximately \$3.9 billion. The size of Québec's underground economy was 3.8% of GDP in 2013, compared with 4.2% in 2008.

Tax losses due to tax havens

In addition to tax losses stemming from the underground economy, an estimate was made of tax losses associated with the use of tax havens by individuals and businesses. These losses have been estimated at \$1 billion for 2013.

- In the case of individuals, tax losses stand at roughly \$800 million. These losses represent tax revenue that would have been obtained if the assets of Québec individuals had generated investment income in Canada.
- In addition, tax losses associated with the use of tax havens by Québec businesses amount to about \$200 million. These corporate tax losses seem to come primarily from the transfer of profits.

¹ MINISTÈRE DES FINANCES DU QUÉBEC, *Le phénomène du recours aux paradis fiscaux : mémoire du ministère des Finances du Québec à la Commission des finances publiques*, 2015. It is available on the website of the Ministère des Finances du Québec at www.finances.gouv.qc.ca/documents/Autres/fr/AUTFR_memoireparadisfiscaux.pdf.

1.2 Continuation of efforts to fight tax evasion and tax avoidance

Tax evasion and tax avoidance have negative repercussions on individuals and businesses. Governments are also affected by the erosion of their tax base and the reduction of their capacity to fund public services.

In the case of individuals, the use of such schemes leads to an unfair redistribution of the burden of funding public services to those who fulfil their tax obligations.

As for businesses, they are affected by the fact that the use of tax havens or tax avoidance leads to unfair competition with those who do not use them.

Initiatives taken by the government to fight tax evasion and tax avoidance are based on two levers:

- funding, by the Ministère des Finances du Québec, of concerted action between different departments and bodies to curb tax evasion through the Provision to increase any appropriation for revenue initiatives (hereinafter referred to as “the Provision”);
- tax audit activities by Revenu Québec.

1.2.1 Concerted action to fight tax evasion

The government has set up several committees based on joint action between different departments and bodies in certain at-risk sectors.

The fight against the illicit tobacco trade

Created in 2001, the ACCES¹ tobacco² committee aims to dismantle smuggling networks and limit the tax losses linked to the illicit trade in tobacco in order to, in particular, increase revenue from the specific tax on tobacco products.

- The market share of smuggled tobacco products decreased from nearly 30% in 2009 to roughly 15% from 2011 to 2014.

1 Actions concertées pour contrer les économies souterraines (concerted action to counter the underground economy).

2 ACCES tobacco brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, other Québec police forces, the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Directeur des poursuites criminelles et pénales, the Ministère de la Santé et des Services sociaux, the Ministère des Finances du Québec, as well as the Royal Canadian Mounted Police, the Canada Revenue Agency and the Canada Border Services Agency.

The operations of the ACCES tobacco committee consist essentially of police investigations and of inspections carried out by Revenu Québec. In 2014-2015, police forces processed 2 597 cases and Revenu Québec conducted 3 720 inspections.

— The actions of the ACCES tobacco committee have yielded returns of \$183.9 million.

❑ The fight against unreported work in the construction sector

The ACCES construction³ committee was created to encourage various departments and bodies concerned by tax evasion in the construction sector to maximize information-sharing and establish concerted intervention strategies in this sector.

Concerted action yielded returns of \$84.4 million in 2014-2015. In addition, it made it possible, in particular, to improve the exchange of information between departments and bodies and to develop the tools needed to foster detection of underground activities.

Initiatives in the management of public contracts in the construction sector

In recent years, the government has taken various actions to combat poor practices in the awarding of public contracts in the construction sector by, among other things:

- implementing the *Attestation de Revenu Québec* for public contracts, including construction work, as well as for private construction contracts and employment agencies;
- requiring that authorization be obtained for entering into a contract with the government for the public contracts concerned;
- giving assent to the *Act to ensure mainly the recovery of amounts improperly paid as a result of fraud or fraudulent tactics in connection with public contracts*¹ and implementing a voluntary reimbursement program.

In addition, initiatives to fight against collusion and corruption have been taken, including:

- the creation of the Unité permanente anticorruption;
- the implementation of the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, which tabled a report containing 60 recommendations on November 24, 2015. The government is continuing its analysis in order to determine what follow-up is required.

These initiatives are making it possible to limit tax evasion and unreported work in the management of public contracts in the construction sector.

1 S.Q. 2015, chapter 6.

3 ACCES construction brings together, in particular, the Commission de la construction du Québec, the Régie du bâtiment du Québec, the Commission des normes, de l'équité, de la santé et de la sécurité du travail, Revenu Québec, the Ministère du Travail, de l'Emploi et de la Solidarité sociale, the Directeur des poursuites criminelles et pénales and the Ministère des Finances du Québec.

❑ The fight against the illicit trade in alcoholic beverages

Since 1996, the actions of the ACCES alcohol⁴ committee have been based mainly on an extensive operation involving systematic inspections of establishments that hold a permit to sell alcohol for consumption on the premises, and on investigations into illegal alcohol supply networks.

- These actions have, in particular, recovered revenue owed to the government, reduced unfair competition and had a deterrent effect on the illegal trade in alcoholic beverages.

In 2014-2015, ACCES alcohol's activities as whole yielded returns of \$67.3 million.

In addition, in 2015, the Service de police de la Ville de Montréal, in collaboration with other ACCES alcohol partners, completed the "Project Malbec" investigation on alcohol smuggling in Québec.

This investigation led to the largest seizure of contraband alcohol since the committee was created and put an end to a tax fraud estimated at over \$13 million. This amount is equal to the revenue that the Québec government would have lost during the four years preceding the end of the scheme. Accordingly, for this case alone, the annual tax losses avoided are estimated at approximately \$3.3 million.

❑ The fight against economic and financial crime

Created in 2004, the ACCEF⁵ committee has made it possible to adopt a global approach to fighting economic and financial crime, while ensuring better circulation of information between the main stakeholders concerned.

The ACCEF committee has three components:

- the fight against tax crimes, which puts an end to complex tax evasion and money laundering schemes;
- the fight against crimes committed on financial markets, which focuses on schemes whose victims are usually investors;
- the fight against laundering of the proceeds of crime, which aims to conceal the source of illegally acquired money.

The actions of the ACCEF committee yielded returns of \$48.6 million in 2014-2015.

4 ACCES alcohol brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, other Québec police forces, the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Directeur des poursuites criminelles et pénales, the Régie des alcools, des courses et des jeux, the Société des alcools du Québec and the Ministère des Finances du Québec.

5 Actions concertées contre les crimes économiques et financiers (concerted action against economic and financial crime). This committee brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, the Ministère de la Sécurité publique, Revenu Québec, the Directeur des poursuites criminelles et pénales, the Autorité des marchés financiers and the Ministère des Finances du Québec.

❑ The fight against organized networks of unreported work

Since 2011-2012, the Ministère du Travail, de l'Emploi et de la Solidarité sociale has been engaged in a concerted effort to fight fraud committed against the government in order to curb unreported work and protect workers. The actions have been designed to discourage the use of tax evasion schemes by employment agencies.

- Cooperation between Emploi-Québec, Revenu Québec, the Commission des normes, de l'équité, de la santé et de la sécurité du travail and the Sûreté du Québec has made it possible to detect networks, recover sums owed, take deterrent action and support the entry into the legal labour market of people who have worked in the underground economy.

Operations carried out in 2014-2015 yielded returns of \$17.1 million.

❑ Expedited management of special penal cases in the Court of Québec

The special penal cases division began its activities in 2015-2016 in order to expedite case management in penal matters and it will be fully in place in 2016-2017.

- The capacity to process penal cases within a reasonable time will ensure the conviction of individuals who break laws, particularly tax laws and laws governing Québec's financial sector, and make it possible to recover unpaid amounts.

❑ Results of concerted action

Concerted action in at-risk sectors is funded, in particular, by the Provision, making it possible to furnish an additional effort in relation to the regular activities of various government departments and bodies.

In 2014-2015, the Ministère des Finances du Québec paid \$38.7 million for various projects to fight tax evasion, which generated direct and indirect yields of roughly \$400 million, which corresponds to \$10.37 per dollar invested in 2014-2015.

TABLE C.1

Yield of projects funded by the Provision for revenue initiatives⁽¹⁾ (millions of dollars)

	2013-2014	2014-2015
ACCES tobacco	169.6	183.9
ACCES construction	109.4	84.4
ACCES alcohol	64.3	67.3
ACCEF	25.7	48.6
Organized networks of unreported work	18.6	17.1
Total yields	387.6	401.3
Amounts of financing granted	42.5	38.7
YIELD PER DOLLAR INVESTED (DOLLARS)	9.12	10.37

Note: Totals may not add due to rounding.

(1) The yields associated with the Provision, which include, in particular, tax recovery and fines are presented in proportion to the funding granted to these projects by the Provision. In addition to these yields, concerted action in 2014-2015 enabled Revenu Québec to recover \$419.1 million in taxes and the Court of Québec to apply penalties leading to fines of \$25.1 million.

Sources: Régie du bâtiment du Québec, Commission de la construction du Québec, Commission des normes, de l'équité, de la santé et de la sécurité du travail, Revenu Québec, Ministère de la Sécurité publique, Directeur des poursuites criminelles et pénales and Ministère du Travail, de l'Emploi et de la Solidarité sociale. Compiled by the Ministère des Finances du Québec.

Tax recovery not only helps to maintain tax integrity, but also has an impact on the reduction of unfair competition and changes in taxpayers' behaviour in regard to their tax obligations.

❑ Increase in the Provision for revenue initiatives

The government is announcing that an additional \$4 million will be allocated in 2016-2017 to the Provision in order to, in particular, comply with the agreement on the sharing of revenue from tax assessments related to criminal activities.

Accordingly, additional appropriations of \$3 million will be added in 2016-2017 to the expenditure budget of the Ministère des Finances du Québec to comply with the agreement. In addition, \$1 million will be provided from the contingency fund for funding the regulation of Québec's alcoholic beverages industry.

Agreement on the sharing of revenue from tax assessments related to criminal activities

In Budget 2015-2016, the government announced the implementation of the agreement on the sharing of revenue from tax assessments related to criminal activities.

The aim of this project is to encourage the sharing of police information with Revenu Québec, in order to facilitate the issue of notices of assessment and provide a deterrent against crime and criminal networks by reducing the financial benefits that result from them.

In fiscal 2016-2017, the sums associated with this project and received by Revenu Québec, as at December 31, 2015, will be shared as follows:

- 50% with the Ministère de la Sécurité publique to encourage the sharing of police information with Revenu Québec;
- 25% with the Justice portfolio to boost the capacity to manage penal court cases;
- 25% with the Ministère des Finances du Québec to fund new projects to fight tax evasion.

The Provision is the financial mechanism used to share the equivalent of the sums collected by Revenu Québec with the other partners in this project.

1.2.2 Tax audit activities by Revenu Québec

The core mission of Revenu Québec is to collect the majority of the government's revenue. The tax revenue it collects stems mainly from:

- self-assessment, which results from the processing of tax returns filed voluntarily by taxpayers and mandataries;
- tax audit activities, which correspond to operations carried out by Revenu Québec to ensure the administration of tax laws as a whole, protect the integrity of tax revenue and curb tax losses.

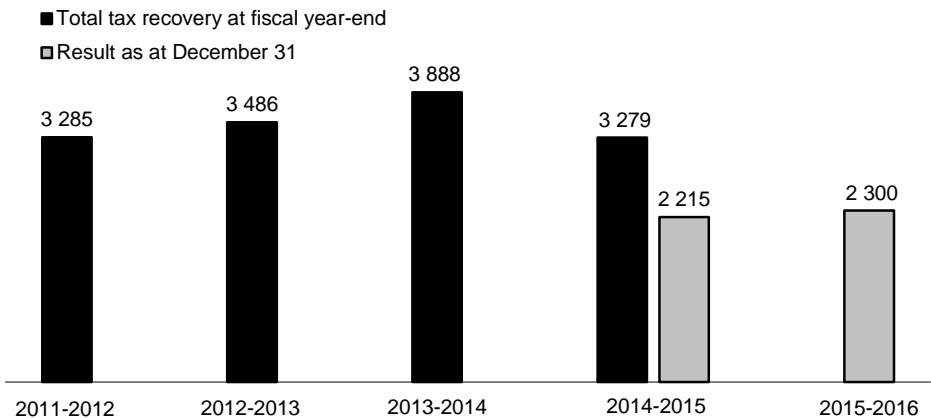
☐ Change in tax recovery activities

Revenu Québec's tax audit activities recovered nearly \$3.3 billion in 2014-2015 and \$2.3 billion for the first nine months of fiscal 2015-2016.

The result recorded as at December 31, 2015 was about \$85 million higher than the result recorded on the same date in 2014.

CHART C.1

Results of tax recovery by Revenu Québec (millions of dollars)



Source: Revenu Québec. Compiled by the Ministère des Finances du Québec.

❑ Tax recovery related to tax evasion

In addition to its regular activities, Revenu Québec has also implemented in recent years various projects designed specifically to fight tax evasion for the purpose of reducing tax losses. These projects include the:

- initiative to fight tax evasion related to criminal activities, which is intended to encourage the sharing of police information with Revenu Québec and act as a deterrent against crime;
- installation of sales recording modules (SRMs) in restaurants and bars, which fosters tax compliance by businesses and leads to increased self-assessment;
- *Attestation de Revenu Québec* for public contracts, as well as for private construction contracts and employment agencies, which ensures better tax compliance by businesses and reduces tax claims;
- sustained presence of Revenu Québec on major construction sites.
 - Under this project, Revenu Québec ensures a sustained presence on major public and private construction sites, in order to reconstruct the chain of subcontractors and rapidly detect various breaches of tax laws.
 - These activities recovered \$353.6 million from 2010-2011 to 2014-2015.

❑ **Tax recovery related to tax avoidance**

The government has deployed efforts to recover sums of money that are lost because of tax avoidance.

Accordingly, in 2016-2017, Revenu Québec will continue to take action to:

- fight aggressive tax planning;
- exchange information with the Canada Revenue Agency (CRA);
- encourage voluntary disclosure.

■ **The fight against aggressive tax planning**

Revenu Québec has set up a team specialized in fighting aggressive tax planning, which has enabled it to develop expertise regarding tax havens.

- These efforts recovered \$505.2 million in taxes from 2009-2010 to 2014-2015.

■ **Exchange of information with the Canada Revenue Agency**

Revenu Québec and the CRA have enhanced their agreement on the exchange of information concerning, in particular, aggressive tax planning used by taxpayers subject to the Québec tax system.

More precisely, the agreement enables Revenu Québec to have access to assessments resulting for information at the disposal of the CRA because of information exchange agreements between Canada and signatory countries. To date, 92 tax treaties have been signed, and 22 information exchange agreements have been entered into with countries that have not signed the tax treaties.

Revenu Québec can thus obtain information on taxpayers who use tax havens and, where applicable, claim tax that has been avoided.

■ **Voluntary disclosure**

To foster good tax behaviour, Revenu Québec uses its voluntary disclosure program to encourage mandataries and taxpayers to pay the fees and interest payable on unfulfilled tax obligations. This program recovered \$294.1 million from 2009-2010 to 2014-2015.

❑ Work of the Organisation for Economic Co-operation and Development concerning tax base erosion and profit shifting

Fighting schemes such as those that use tax havens for the purpose of tax evasion and tax avoidance requires a concerted approach at the international level. Québec and Canada are collaborating on international efforts to fight these schemes.

At the request of the G20 member countries, the Organisation for Economic Co-operation and Development (OECD) has developed a plan to curb the erosion of the tax base and the shifting of profits, in a uniform and coordinated manner in the G20 countries and the OECD.

In July 2013, the G20 countries adopted this action plan, which comprises 15 key areas, in order to detect and reduce aggressive tax planning and practices, and to modernize the international tax system. In September 2014, the OECD made public an interim report on seven of the 15 areas for action. The eight others were added in a consolidated final report published in October 2015.

OECD Action Plan	
Action 1	Address the tax challenges of the digital economy.
Action 2	<p>Neutralize the effects of hybrid mismatch arrangements.</p> <p>Neutralize the effects of hybrid instruments or hybrid entities that allow double non-taxation, double deductions or long-term deferral.</p> <ul style="list-style-type: none"> ▪ A hybrid instrument or a hybrid entity is an instrument or entity whose legal status varies depending on the jurisdiction.
Action 3	Strengthen controlled foreign company rules.
Action 4	Limit base erosion via interest deductions and other financial payments.
Action 5	<p>Counter harmful tax practices more effectively, taking into account transparency and substance.</p> <p>Improve transparency, particularly through the mandatory automatic exchange of information on rulings regarding preferential regimes.</p>
Action 6	<p>Prevent treaty abuse.</p> <p>Design rules to prevent the granting of treaty benefits in appropriate circumstances.</p>
Action 7	<p>Prevent the artificial avoidance of permanent establishment status.</p> <p>Prevent facilities from avoiding permanent establishment status for the purpose of shifting profits to another jurisdiction.</p>

OECD Action Plan (cont.)

Actions 8, 9 and 10 – Align transfer pricing outcomes with value creation.

Action 8 – Intangibles.

Adopt a broad and clearly delineated definition of intangibles (trademarks, patents, customer lists) and develop transfer pricing rules or special measures applicable to transfers of intangibles.

Action 9 – Risks and capital.

Prevent an entity from collecting revenue solely because it has contractually assumed risks or has provided capital.

Action 10 – Other high-risk transactions.

Provide protection against the most common types of base-eroding payments, such as management fees.

Action 11 – Establish methodologies to collect and analyze data on base erosion and profit shifting and the actions to address it.

Action 12 – Require taxpayers to disclose their aggressive tax planning arrangements.

Action 13 – Re-examine transfer pricing documentation.

Develop transfer pricing documentation rules to enhance transparency for tax administrations.

Action 14 – Make dispute resolution mechanisms more effective.

Develop solutions to address obstacles that prevent countries from resolving treaty-related disputes and improve existing mechanisms.

Action 15 – Develop a multilateral instrument.

Analyze the tax and public international law issues related to the development of a multilateral instrument to enable countries that wish to do so to implement measures recommended at the end of the work on this action plan.

1.3 New provisions against tax avoidance

To fight tax avoidance more effectively, the government is announcing new provisions to counteract planning that makes it possible to avoid duties on transfers of immovables.

1.3.1 Fighting the avoidance of duties on transfers of immovables

The *Act respecting duties on transfers of immovables* (hereinafter referred to as “the Act”) stipulates that every municipality must collect duties on the transfer of any immovable situated within its territory.

Among the specific features of the Act, mention should be made of the following:

- the acquirer of an immovable that is transferred must pay a transfer duty to the municipality;
- the transfer duty is payable from the registration of the transfer of the immovable in the land register;
- certain types of transfers of immovables are exempt from payment of the transfer duty, including transfers between two “closely related legal persons.”⁶

It appears that various schemes have been used to enable certain taxpayers to:

- benefit from the provisions granting an exemption from the payment of the transfer duty in situations where the duty should normally have been paid;
- defer payment of the transfer duty indefinitely.

Some of these schemes were designed to modify the capital stock of a legal person for a short period, so as to benefit from the exemption of payment of the transfer duty when the immovable was transferred.

Similarly, other schemes made it possible to not register in the land register a deed recording the transfer of an immovable between two legal persons. Since the transfer duty is payable from the registration of the transfer, it was not collected by the municipality concerned.

To ensure the integrity of the Act, changes will be made to the system of duties on transfers of immovables.

6 Among other things, the Act stipulates that a legal person is closely related to another legal person if, at the time of the transfer of an immovable, at least 90% of the issued shares having full voting rights of the capital stock of the legal person are owned by the other legal person.

These changes will first involve the tightening of certain provisions granting exemption from the payment of the transfer duty. Second, a mechanism for compulsory disclosure of notification of the transfer of an immovable subject to the Act will be provided for when the deed recording the transfer has not been registered in the land register.

The government is thus taking action in three areas:⁷

- by tightening certain exemptions;
- by introducing a mandatory disclosure mechanism for non-registration of transfers and non-compliance with certain exemption conditions;
- by changing the time when the transfer duty becomes payable, i.e. the date of the transfer of the immovable instead of the date when the deed recording the transfer is registered in the land register.

The funds generated by the introduction of these changes to the system of duties on transfers of immovables will benefit Québec's various municipalities.

7 For more details, see Section A on the fiscal measures in the document *Additional Information 2016-2017*.

2. IMPROVEMENT OF THE PERFORMANCE AND EFFICIENCY OF REVENU QUÉBEC

In 2016-2017, Revenu Québec will:

- improve the quality of its relations with taxpayers;
- bring the growth of its spending to a level comparable with that of the government as a whole, excluding health and education.
 - Reducing this growth will bolster the efficiency of Québec's tax administration while preserving the government's revenue.

This section presents the role of Revenu Québec and the actions proposed to improve its relations with taxpayers and its efficiency.

2.1 The role of Revenu Québec

Revenu Québec plays a key role in the government and in Québec society. It collects most of the government's revenue and ensures the smooth operation of the social programs that constitute our social safety net. Indeed, Revenu Québec:

- administers the Québec tax system by collecting taxes so that everyone pays their fair share for the funding of public services;
- collects various payroll taxes from Québec's departments and bodies, such as those intended for the Québec Pension Plan and the Prescription Drug Insurance Plan;
- redistributes the amounts payable to the beneficiaries of various socio-fiscal programs, such as the solidarity tax credit and the child assistance program;
- administers the support payment program to ensure regular payment of the support to which children and the custodial parent are entitled;
- recovers and provisionally administers unclaimed property;
- administers the Registraire des entreprises, which helps to protect businesses, associations and the public in their economic and social relations.

Receipts collected by Revenu Québec totalled \$104 billion in 2014-2015, which represents nearly 28% of Québec's GDP for the same period.

TABLE C.2

Receipts collected by Revenu Québec
 (millions of dollars)

	2014-2015
Tax receipts	
Income and property taxes ⁽¹⁾	37 488
Health Services Fund	6 756
Consumption taxes	
Québec sales tax (QST)	25 106
Tax on fuel ^{(2),(3)}	2 964
Tax on tobacco products ⁽²⁾	1 063
Tax on alcoholic beverages ⁽²⁾	581
Total consumption taxes	29 714
Duties and permits	62
Total tax receipts	74 020
Receipts collected for partners	
Goods and services tax remitted to the federal government	10 887
Québec Pension Plan	12 757
Fonds des pensions alimentaires	518
Prescription Drug Insurance Fund	990
Québec Parental Insurance Plan	2 014
Workforce Skills Development and Recognition Fund	34
RECYC-QUÉBEC (duties on new tires)	24
Municipal tax for 9-1-1	42
Commission de la santé et de la sécurité du travail and Commission des normes du travail	2 780
Total revenue collected for partners	30 046
TOTAL	104 066

Note: Receipts collected by Revenu Québec represents cash inflows, which may or may not be of a fiscal nature, during a fiscal year. These amounts differ from the revenue presented in the Economic Plan since that revenue corresponds to sums payable in respect of a fiscal year, regardless of whether they have been received or not. All of the other accounting operations require, among other things, that refunds be deducted.

(1) Includes the health contribution.

(2) Tax receipts presented for specific taxes includes all of the sums collected by the government. These sums are paid into the general fund and various special funds.

(3) This amount includes the increase in the fuel tax dedicated to the Agence métropolitaine de transport.

Sources: Revenu Québec and Ministère des Finances du Québec.

2.2 Actions to improve the quality of relations with taxpayers

The government has asked Revenu Québec to draw up a plan to improve its performance by ensuring, in particular, that special attention is paid to the quality of its relations with taxpayers.

In addition to this work, Revenu Québec has prepared an action plan to address, in a sustainable manner, the issues raised in the 2014-2015 Annual Report of the Québec Ombudsman.

— This plan was made public on January 26, 2016.

The actions contained in this plan will make it possible to improve current procedures. A change in culture is being made in order to optimize Revenu Québec's relations with clients and respond to the Ongoing Program Review Committee.

☐ Action plan drawn up by Revenu Québec

The action plan drawn up by Revenu Québec is centred on client-service excellence.

This plan, which contains 19 actions, is designed according to the following five thrusts:

- a charter of rights for taxpayers and mandataries;
- diversion of disagreements away from the court system and access to justice;
- improvement of the tax audit process applicable to taxpayers;
- improvement of relations with individuals and businesses;
- follow-up on the action plan.

Revenu Québec's tax audit activities must be carried out with respect for citizens, procedural fairness and the principles of administrative justice.

Actions presented by Revenu Québec in its action plan	
Thrust 1: Charter of rights for taxpayers and mandataries	
1.1	Adopt a charter of rights for taxpayers and mandataries to strengthen respect for the principles of administrative justice.
1.2	Provide the employees concerned with training on the obligations arising from the new charter of rights for taxpayers and mandataries.
1.3	Integrate the principles and obligations of the new charter, particularly into the audit and recovery process.

Actions presented by Revenu Québec in its action plan (cont.)

Thrust 2: Diversion of disagreements away from the court system and access to justice

- 2.1 Study a legislative amendment for creating an independent review board.
- 2.2 Grant administrative suspension of recovery measures in the case of mandataries for claims of input tax refunds and the recovery of uncollected Québec sales tax (QST) when the mandataries comply with their other tax obligations and the collection of debts is not jeopardized.
- 2.3 Study a legislative amendment to enable small businesses to contest a decision rendered following an objection before the Small Claims Division of the Court of Québec and analyze the possibility of raising the eligibility thresholds.
- 2.4 Produce public statistics on the proportion of notices of reassessment that are upheld following an appeal or a dispute.

Thrust 3: Improvement of the tax audit process applicable to taxpayers

- 3.1 Assign numbers to draft assessments to make it easier for taxpayers to follow the processing progress of their file.
- 3.2 Ensure that auditors better address the needs of clients who are being audited.
- 3.3 Step up proactive monitoring and inspection measures for the registration of mandataries.
- 3.4 Conduct client surveys on compliance with the auditing process.
- 3.5 Evaluate client services after each audit.
- 3.6 Make survey results and client service evaluations public.

Thrust 4: Improvement of relations with citizens and businesses

- 4.1 Introduce a new process to assist businesses, particularly small- and medium-sized ones, and individuals in business.
 - 4.1.2 Set up new teams for coaching and training employees responsible for performing this new task.
- 4.2 Enhance and promote the services offered by Revenu Québec in complaints processing.
- 4.3 Step up consultations with Revenu Québec's partners (business groupings, professional associations, etc.).
- 4.4 Implement the changes made to the operating terms of the solidarity tax credit in order to simplify its application.

Thrust 5: Follow-up of the action plan

- 5.1 Charge Revenu Québec's board of directors with following up on the implementation of the action plan and reporting on it to the Minister of Finance.

Sources: Revenu Québec and Ministère des Finances du Québec.

2.3 Actions to improve efficiency

Revenu Québec's efficiency corresponds to its ability to collect tax revenue, at the least cost, while maintaining appropriate taxpayer relations.

The government's objective is two-fold:

- reduce the public cost, i.e. what it costs the government to collect its tax revenue;
- also reduce the private cost, i.e. what it costs taxpayers to fulfill their tax obligations.

The responsibility of collecting revenue owed to the government requires adapting to new practices:

- the use of tax havens;
 - Revenu Québec is keeping an eye on new schemes with international repercussions and implementing, in concert with the federal government, the actions needed to counteract them.
- the repercussions of new technologies on the collection of the government's revenue, be it the change in e-commerce or the sharing economy.

2.3.1 Ensuring collection of revenue by Revenu Québec

Revenu Québec intervenes in various ways to improve taxpayer behaviour, particularly by:

- raising awareness and distributing information to encourage self-assessment;
- assisting individuals and businesses;
- developing technology.

The vast majority of taxpayers fulfil their obligations voluntarily. In the case of those who do not do so, Revenu Québec carries out tax audits, which involve mainly the following activities:

- assessment;
- auditing;
- investigation.

2.3.2 Encouraging self-assessment

One way to ensure that the government's revenue is collected at the least cost is to implement measures that encourage self-assessment.

- Tax audit activities must only be one of the means used to induce taxpayers to fulfil their tax obligations.

In 2016-2017, Revenu Québec will encourage self-assessment activities. The aim of these activities will be to encourage taxpayers and mandataries themselves to determine, report and transmit their contributions and amounts collected within the prescribed time limits.

To encourage self-assessment, Revenu Québec will take action aimed at:

- facilitating interaction with individuals and businesses;
- simplifying access to online services and expand their use;
- ensuring accuracy of information provided to individuals and businesses.

In addition, to reduce costs to the government and taxpayers, online service delivery initiatives will be taken to ensure that such service delivery is comparable to that of the most effective tax administrations.

- Technological investments will be made for that purpose.

In addition, Revenu Québec will adopt preventive actions to continue developing approaches that encourage self-assessment, in particular, through the adoption of tools that foster and facilitate tax compliance among taxpayers, similar to measures such as:

- the *Attestation de Revenu Québec* for employment agencies, public contracts and private construction contracts;
- sales recording modules in restaurants and bars.

Innovative measures introduced recently by Revenu Québec to improve tax behaviour among taxpayers

***Attestation de Revenu Québec* for public contracts, private construction contracts and employment agencies**

Under the *Act respecting contracting by public bodies*,¹ businesses that wish to enter into certain contracts or subcontracts² must obtain an attestation of tax compliance issued by Revenu Québec. This attestation indicates that the business has filed the returns and reports that it was required to transmit under fiscal laws and that it has no overdue accounts payable to Revenu Québec.

Since June 2010, over 38 000 businesses have requested an *Attestation de Revenu Québec* and nearly 210 000 attestations have been issued, which has helped to improve self-assessment by nearly \$29 million.³

To step up the fight against tax evasion, the government announced in Budget 2014-2015 that the obligation to obtain an attestation would be extended,⁴ as of March 1, 2016, to:

- private construction contracts between a recognized client and a given contractor cumulating \$25 000 or more during a calendar year;
- contracts between a client company and a particular employment agency cumulating \$25 000 or more during a calendar year.

Sales recording modules

Under the *Act respecting the Québec sales tax*,⁵ sales recording module (SRM) technology has been mandatory in all Québec restaurants since November 1, 2011 and in bars and resto-bars since February 1, 2016. The measures associated with the installation of SRMs in these sectors include the requirement to produce bills using an SRM and the requirement to remit such bills to customers.

- Since its implementation in the restaurant sector, this measure has improved self-assessment by over \$940 million.⁶
- The installation of SRMs in bars is expected to increase self-assessment by \$42 million per year.

1 CQLR, chapter C-65.1.

2 A contract with a department, a public body, a state-owned enterprise or a municipality.

3 From the implementation of the *Attestation de Revenu Québec* in 2010-2011 to March 31, 2015.

4 Under the *Taxation Act* (CQLR, chapter I-3).

5 CQLR, chapter T-0.1.

6 From the installation of SRMs in 2010-2011 to March 31, 2015.

Sources: Revenu Québec and Ministère des Finances du Québec.

Section D

REPORT ON THE APPLICATION OF THE LEGISLATION
RESPECTING A BALANCED BUDGET AND THE
GENERATIONS FUND

1. The *Balanced Budget Act*..... D.3

1.1 Current stipulations and requirements of the Act D.3

1.2 The budgetary balance within the meaning of the *Balanced Budget Act* D.5

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2. The *Act to reduce the debt and establish the Generations Fund* D.9

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1. THE *BALANCED BUDGET ACT*

Under the *Balanced Budget Act*, the Minister of Finance must report to the National Assembly, in the budget speech, on the achievement of the objectives of the Act and any variance recorded.

1.1 Current stipulations and requirements of the Act

The purpose of the *Balanced Budget Act* is to oblige the government to maintain a balanced budget and, to that end, to table balanced budget estimates. The Act sets out the applicable rules in the case of an overrun.

The *Balanced Budget Act*

The *Balanced Budget Act* (CQLR, chapter E-12.00001) was passed unanimously by the National Assembly on December 19, 1996. The Act stipulates that the government must table balanced budget estimates and sets out the applicable rules in the case of an overrun.

In 2009, the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (S.Q. 2009, chapter 38) substantially amended the *Balanced Budget Act* to, among other things, introduce specific provisions to allow the government to weather the recession and authorize deficits that would have to be reduced gradually in order to return to a balanced budget in 2013-2014.

Moreover, the *Balanced Budget Act* was amended in 2013 to exclude, from the calculation of the budgetary balance for 2012-2013, the result of \$1.9 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant.

Also in 2013, the return to a balanced budget had to be delayed to 2015-2016. Accordingly, legislative amendments were made to the *Balanced Budget Act* under the *Act mainly to implement certain provisions of the Budget Speech of 4 June 2014 and return to a balanced budget in 2015-2016* (S.Q. 2015, chapter 8), assented to on April 21, 2015. Consequently, the budgetary deficits recorded in 2012-2013 and 2013-2014 are allowed, the budgetary deficit that could not be exceeded in 2014-2015 has been set at \$2.35 billion and a balanced budget will have to be achieved in 2015-2016.

Under the *Balanced Budget Act*, if an overrun of less than \$1 billion is recorded for a fiscal year, the government must achieve an equivalent surplus in the next fiscal year.

The Act stipulates that the government may incur overruns for a period of more than one year, where such overruns total at least \$1 billion as a result of circumstances defined in the Act, namely, a disaster having a major impact on revenue or expenditure, a significant deterioration of economic conditions or a change in federal programs of transfer payments to the provinces that would substantially reduce transfer payments to the government. The government must then apply an offsetting financial plan ensuring that the overruns will be compensated for within a five-year period.

The *Balanced Budget Act* (cont.)

If there is an overrun of at least \$1 billion, the Minister of Finance must report to the National Assembly on the circumstances justifying that the government incur such overruns. In addition, the Minister must present a financial plan allowing those overruns to be offset within the five-year period and apply offsetting measures covering at least \$1 billion as of the fiscal year in which such an overrun is anticipated, or the following year in the case where an overrun is recorded. He must offset at least 75% of those overruns within the first four fiscal years of that period.

In addition, the Act stipulates henceforth that entries posted to the net debt must be taken into account in calculating the budgetary balance, except where such entries result from changes made to the accounting policies of the government or any of its enterprises so as to bring them into compliance with a new standard of the organization Chartered Professional Accountants Canada (CPA Canada).

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the objectives of the Act, their achievement and any variance recorded, and on the operations of the stabilization reserve.

1.2 The budgetary balance within the meaning of the *Balanced Budget Act*

Under the *Balanced Budget Act*, the objectives of the Act are achieved if the budgetary balance, calculated in accordance with the Act, is zero or positive. Table D.1 shows the components for establishing the budgetary balance within the meaning of the Act.

Budgetary balance within the meaning of the Act was maintained from 2006-2007 to 2008-2009.

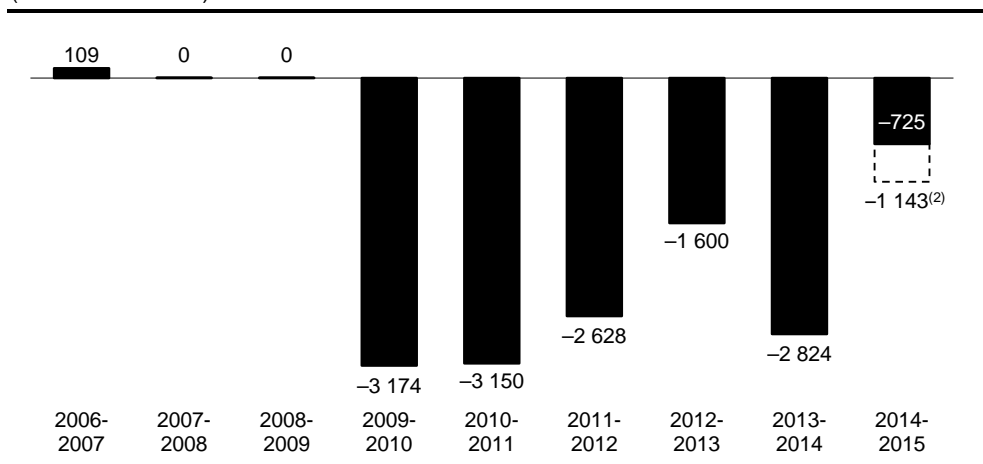
From 2009-2010 to 2013-2014, the budgetary balance within the meaning of the *Balanced Budget Act* was a deficit, as allowed under the Act.

In 2014-2015, the budgetary balance representing the result of operations for the year, which takes into account the allocation of \$1.3 billion to the Generations Fund, was a deficit of \$1.1 billion. This represents an improvement of \$1.2 billion compared to the budgetary deficit of \$2.35 billion forecast in Budget 2015-2016 and corresponding to the target set in the *Balanced Budget Act* for 2014-2015.

— After taking into account the accounting changes applying, in particular, to previous years, as provided for in the Act, totalling \$418 million in 2014-2015, the budgetary balance within the meaning of the *Balanced Budget Act* is a deficit of \$725 million.

CHART D.1

Budgetary balance⁽¹⁾ from 2006-2007 to 2014-2015 (millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

(2) Budgetary balance excluding the impact of accounting changes. After taking into account accounting changes totalling \$418 million, the budgetary balance is a deficit of \$725 million.

TABLE D.1

Budgetary balance within the meaning of the *Balanced Budget Act*
(millions of dollars)

Fiscal year	Surplus (deficit) reported in the public accounts ⁽¹⁾	Generations Fund	Subtotal	Accounting changes and other	Budgetary balance within the meaning of the Act before reserve	Stabilization reserve			Budgetary balance within the meaning of the Act after reserve ⁽²⁾
						Annual surplus	Allocations	Uses	
2006-2007	1 993	-584	1 409	—	1 409	1 409	1 300 ⁽³⁾	—	109
2007-2008	1 650	-449	1 201	—	1 201	1 201	1 201	—	—
2008-2009	-1 258	-587	-1 845	—	-1 845	—	109 ⁽⁴⁾	1 845	—
2009-2010	-2 940	-725	-3 665	58 ⁽⁵⁾	-3 607	—	—	433	-3 174 ⁽⁶⁾
2010-2011	-2 390	-760	-3 150	—	-3 150	—	—	—	-3 150 ⁽⁶⁾
2011-2012	-1 788	-840	-2 628	—	-2 628	—	—	—	-2 628 ⁽⁷⁾
2012-2013	-2 515	-961	-3 476	1 876 ⁽⁸⁾	-1 600	—	—	—	-1 600 ⁽⁹⁾
2013-2014	-1 703	-1 121	-2 824	—	-2 824	—	—	—	-2 824 ⁽⁹⁾
2014-2015	136	-1 279	-1 143 ⁽¹⁰⁾	418 ⁽⁵⁾	-725	—	—	—	-725 ⁽¹¹⁾
2015-2016 ^F	1 431	-1 431	—	—	—	—	—	—	—

F: Forecasts.

(1) The amounts correspond to those established in the government's annual consolidated financial statements, without taking into account the adjustments made in subsequent years for the fiscal year concerned.

(2) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account the allocations to and uses of the stabilization reserve.

(3) In 2006-2007, only \$1.3 billion was allocated to the stabilization reserve in accordance with the then current legislation. Under the *Balanced Budget Act*, the total surplus for each fiscal year is now allocated to the stabilization reserve.

(4) In accordance with section 32 of the Act (S.Q. 2009, chapter 38), the sum of \$109 million, corresponding to the difference between the recorded surplus and the anticipated surplus for 2006-2007, was allocated to the stabilization reserve in 2008-2009.

(5) The *Balanced Budget Act* stipulates that the budgetary balance must be adjusted to take into account certain accounting changes resulting in particular from changes made to the accounting policies of the government or any of its enterprises so as to bring them into compliance with a new standard of the organization Chartered Professional Accountants Canada (CPA Canada).

(6) In accordance with the *Balanced Budget Act*, the obligation to achieve a balanced budget was suspended in 2009-2010 and in 2010-2011.

(7) For 2011-2012, the budgetary deficit of \$2.6 billion represents an improvement of \$1.2 billion compared to the budgetary deficit target of \$3.8 billion set in the March 2011 budget pursuant to the *Balanced Budget Act*.

(8) The result of \$1.9 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant is excluded from the calculation of the budgetary balance for 2012-2013, in accordance with the Act.

(9) The budgetary deficits of \$1.6 billion and \$2.8 billion recorded for 2012-2013 and 2013-2014, respectively, are allowed pursuant to the *Balanced Budget Act* amended by Bill 28 (S.Q. 2015, chapter 8).

(10) This amount corresponds to the budgetary balance representing the result of operations for fiscal year 2014-2015.

(11) For 2014-2015, the budgetary balance representing the result of operations for the year is a deficit of \$1.1 billion—an improvement of \$1.2 billion compared to the budgetary deficit target of \$2.35 billion set in the *Balanced Budget Act* pursuant to Bill 28. After taking into account accounting changes totalling \$418 million, the budgetary balance within the meaning of the *Balanced Budget Act* is a deficit of \$725 million.

1.3 Amendment of the *Balanced Budget Act*

As mentioned in Budget 2015-2016, the government proposed legislative amendments in order to, among other things, establish fiscal 2015-2016 for the return to a balanced budget, which had been forecast for 2013-2014.

On April 21, 2015, the *Balanced Budget Act* was amended with the assent to Bill 28, *An Act mainly to implement certain provisions of the Budget Speech of 4 June 2014 and return to a balanced budget in 2015-2016* (S.Q. 2015, chapter 8).

The amendments to the *Balanced Budget Act*:

- set forth the return to a balanced budget established for fiscal 2015-2016;
- set the budgetary deficit that cannot be exceeded for 2014-2015 at \$2.35 billion;
- authorize the budgetary deficits recorded for fiscal 2013-2014 and 2012-2013, i.e. \$2.8 billion and \$1.6 billion, respectively.

In addition, in order to meet the debt reduction objectives, deposits in the Generations Fund drawn from the specific tax on alcoholic beverages have been increased as of 2016-2017.

1.4 Status of the stabilization reserve

There have been no transactions in the stabilization reserve.

2. THE ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND

2.1 Maintaining the debt reduction objectives

Budget 2016-2017 confirms the maintenance of the debt reduction objectives¹ set forth in the *Act to reduce the debt and establish the Generations Fund* for fiscal year 2025-2026:

- the gross debt must not exceed 45% of GDP;
- the debt representing accumulated deficits must not exceed 17% of GDP.

The following contributions, added to those dedicated to the Generations Fund since its creation in 2006, including water-power royalties, will enable the government to achieve its debt reduction objectives set in the Act.

☐ Specific tax on alcoholic beverages

Pursuant to the passage of Bill 28, additional deposits of \$400 million per year drawn from revenues from the specific tax on alcoholic beverages will be made in the Generations Fund as of 2016-2017.

These additional contributions will be over and above the deposits of \$100 million per year provided for in the Act for 2014-2015 and 2015-2016. Thus, \$500 million per year drawn from the specific tax on alcoholic beverages will be deposited in the Generations Fund as of 2016-2017.

☐ Heritage electricity

Revenues relating to the indexation of the price of heritage electricity have been deposited in the Generations Fund since 2014-2015.

These deposits will be \$98 million in 2015-2016, \$170 million in 2016-2017, \$220 million in 2017-2018, \$300 million in 2018-2019, \$415 million in 2019-2020 and \$520 million in 2020-2021.

☐ Mining revenues

Deposits in the Generations Fund of all mining revenues collected by the government since 2015-2016 will represent \$80 million in 2015-2016, \$109 million in 2016-2017, \$150 million in 2017-2018, \$241 million in 2018-2019, \$296 million in 2019-2020 and \$336 million in 2020-2021.

☐ Additional contribution from Hydro-Québec

An amount of \$215 million per year from Hydro-Québec will be deposited in the Generations Fund from 2017-2018 to 2043-2044.

1 Section E of *The Québec Economic Plan – March 2016* provides detailed information on the Québec government's debt.

❑ **Allocation of the accumulated surplus of the Commission des normes du travail**

Pursuant to the passage of Bill 42 (S.Q. 2015, chapter 15),² the recorded accumulated surplus of the Commission des normes du travail, following its merger with the Commission de la santé et de la sécurité du travail and the Commission de l'équité salariale on January 1, 2016, is being deposited in the Generations Fund. This accumulated surplus is expected to stand at \$108 million in 2015-2016.

This allocation to the Generations Fund will enable the government's gross debt to be reduced.

2 *Act to group the Commission de l'équité salariale, the Commission des normes du travail and the Commission de la santé et de la sécurité du travail and to establish the Administrative Labour Tribunal*, assented to on June 12, 2015.

The Act to reduce the debt and establish the Generations Fund

The *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter R-2.2.0.1) was passed on June 15, 2006. This statute established the Generations Fund, a fund dedicated exclusively to repaying the gross debt.

In 2010, the Act was amended to revise the concepts of debt used and the debt reduction objectives that must be achieved by 2025-2026.

The Act stipulates that, for fiscal year 2025-2026, the gross debt may not exceed 45% of GDP and the debt representing accumulated deficits may not exceed 17% of GDP.

Under the current provisions of the Act, the Generations Fund is constituted of the following amounts from revenue sources dedicated to debt repayment:

- water-power royalties paid by Hydro-Québec and private producers of hydro-electricity;
- part of Hydro-Québec's earnings on the sale of electricity outside Québec as a result of its increased generating capacity;¹
- revenues from the indexation of the price of heritage electricity since 2014;
- fees or charges for water withdrawal;¹
- since 2015-2016, the total of fees, duties, rentals and mining royalties provided for in the *Mining Tax Act* and the *Mining Act*. This amount will be established once the duties allocated to the mining heritage and mining activity management components of the Natural Resources Fund have been subtracted. For 2014-2015, the amount of mining revenues allocated to the Generations Fund corresponds to one quarter of the amount by which the sums collected by the government exceed \$200 million in accordance with the above statutes;
- \$100 million a year since 2014-2015, increasing to \$500 million a year as of 2016-2017, from the specific tax on alcoholic beverages;
- from 2017-2018 to 2043-2044, \$215 million per year from Hydro-Québec;
- sale of government assets, rights or securities;¹
- unclaimed property administered by Revenu Québec;
- gifts, legacies and other contributions received by the Minister of Finance;
- income generated by the investment of the sums making up the Generations Fund.

The *Act to reduce the debt and establish the Generations Fund* also allows the government to order that a part, which it establishes, of any sum that would otherwise have been attributed to the general fund of the Consolidated Revenue Fund be allocated to the Generations Fund.

The amounts constituting the fund are deposited with the Caisse de dépôt et placement du Québec and managed in accordance with an investment policy determined by the Minister of Finance, in collaboration with the Caisse.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the evolution of the debt representing accumulated deficits and the gross debt, on the amounts constituting the Generations Fund and any amounts used to repay the gross debt.

¹ An order in council of the government is required to set the portion of these amounts that must be allocated to the Generations Fund.

2.2 Sums dedicated to the Generations Fund

In 2015-2016, \$1.5 billion was deposited in the Generations Fund, i.e. \$1.4 billion from revenue sources dedicated to the fund, to which is added \$108 million resulting from the allocation of the accumulated surplus of the Commission des normes du travail to the fund. The downward adjustment of \$136 million in deposits in the Generations Fund compared to Budget 2015-2016 is due primarily to lower-than-forecast investment income.

For 2016-2017, \$2.0 billion will be devoted to the Generations Fund.

For 2017-2018, the revenue of the Generations Fund should reach \$2.5 billion.

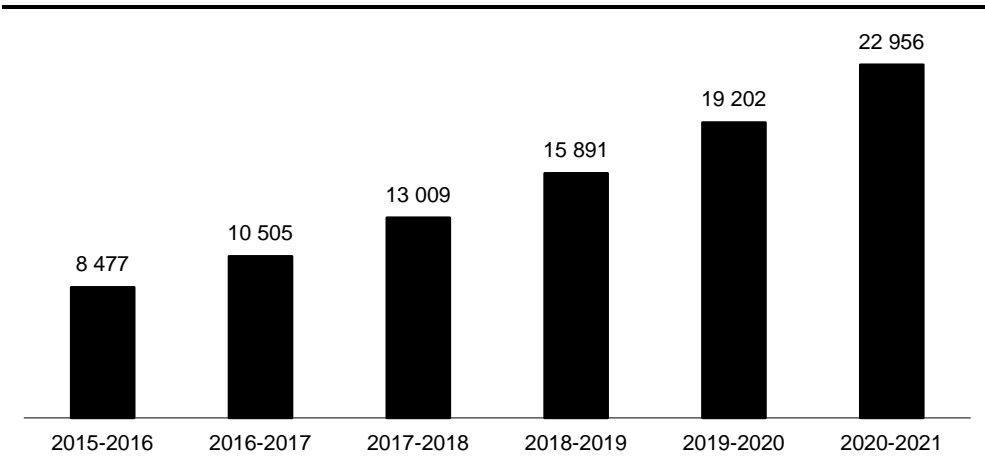
Taking into account the deposits since its creation and those forecast for the coming years, as well as the use of the Generations Fund to repay maturing borrowings,³ the book value of the Generations Fund will reach:

- \$8.5 billion as at March 31, 2016;
- \$10.5 billion as at March 31, 2017;
- \$13.0 billion as at March 31, 2018.

The Generations Fund should reach \$23.0 billion as at March 31, 2021.

CHART D.2

Growth in the book value of the Generations Fund^F (millions of dollars)



F: Forecasts.

3 In 2013-2014, the government used \$1 billion of the Generations Fund to repay maturing borrowings.

TABLE D.2

Generations Fund
(millions of dollars)

	Budget 2015-2016		Budget 2016-2017^F					
	2015-2016	Adjustments	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020- 2021
BOOK VALUE, BEGINNING OF YEAR	6 912	26	6 938	8 477	10 505	13 009	15 891	19 202
DEDICATED REVENUES								
Water-power royalties								
Hydro-Québec	663	-5	658	652	684	699	723	748
Private producers	93	5	98	95	96	98	100	103
	756	—	756	747	780	797	823	851
Indexation of the price of heritage electricity	105	-7	98	170	220	300	415	520
Additional contribution from Hydro-Québec	—	—	—	—	215	215	215	215
Mining revenues	116	-36	80	109	150	241	296	336
Specific tax on alcoholic beverages	100	—	100	500	500	500	500	500
Unclaimed property	25	25	50	30	15	15	15	15
Investment income	484	-137	347	472	624	814	1 047	1 317
Total of dedicated revenues	1 586	-155	1 431	2 028	2 504	2 882	3 311	3 754
Deposit from the accumulated surplus of the Commission des normes du travail	89	19	108	—	—	—	—	—
Total of deposits	1 675	-136	1 539	2 028	2 504	2 882	3 311	3 754
BOOK VALUE, END OF YEAR	8 587	-110	8 477	10 505	13 009	15 891	19 202	22 956

F: Forecasts.

Section E

OMNIBUS BILL

1. Omnibus billE.3

1. OMNIBUS BILL

Some measures of the budget require legislative amendments. The Minister of Finance will introduce an omnibus bill in the National Assembly during the spring 2016 parliamentary session for that purpose. The bill will contain the legislative amendments that are not of a fiscal nature. The details of the measures are provided in the budget documents. The bill will provide for the following measures in particular.

☐ Amendments to legislation related to the financial sector

Following the tabling of reports on the application of various legislation related to the financial sector, amendments will be proposed to ensure the legislation reflects changes and needs in this sector.

☐ Support for investment through an electricity discount

Legislative changes will be proposed to finance the electricity discount for major investment projects in the manufacturing and natural resource processing sectors.

☐ Sports and Physical Activity Development Fund

The bill will enable an increase of \$6 million in the amount from the revenues of the specific tax on tobacco products that will be deposited in the Sports and Physical Activity Development Fund from 2016-2017 to 2025-2026.

☐ Green Fund

Amendments will be made to the *Act respecting the Ministère du Développement durable, de l'Environnement et des Parcs* to provide for the preparation and tabling in the National Assembly of annual Green Fund accounts. Legislative amendments may also be made to finance the RénoVert tax credit as well as government investment in green infrastructure.

☐ Facilitating public transit projects

■ Transportation electrification

Legislative amendments will be made to the *Hydro-Québec Act* and the *Act respecting the Régie de l'énergie* to enable Hydro-Québec to fund projects for electrification of public transit.

■ Partnership agreements with the Caisse de dépôt et placement du Québec

Legislative amendments will be made to the *Act respecting land use planning and development* to enable municipalities to enter into agreements for the purpose of participating in public infrastructure projects initiated by the Caisse de dépôt et placement du Québec.

☐ **Improving road safety**

The bill will provide for the necessary legislative amendments to finance developments to improve road safety for cyclists and drivers.

☐ **Improving the performance of the Société de l'assurance automobile du Québec (SAAQ)**

The *Highway Safety Code* will be amended to enable SAAQ to issue personalized licence plates and modernize its activities. Among other things, the amendments will improve SAAQ's online services and facilitate transactions for the clientele.

☐ **Cessation of activities of the Health and Welfare Commissioner**

To eliminate overlapping and clarify roles and responsibilities in the healthcare sector, the *Act respecting the Health and Welfare Commissioner* will be repealed. The functions of the Commissioner will be transferred to the Ministère de la Santé et des Services sociaux and the Institut nationale d'excellence en santé et en services sociaux (INESSS).

☐ **Fund to Finance Health and Social Services Institutions (FINESSS)**

The elimination of FINESSS, which requires amendments to the *Act respecting the Ministère de la Santé et des Services sociaux*, is being deferred until April 1, 2017.

☐ **Optimization and promotion of land and geospatial information-related activities**

With a view to optimizing the services of the Québec Land Register and increase promotion of land and geospatial information-related activities, legislative amendments are required to enable the Minister of Energy and Natural Resources to roll out service outlets and registry offices to increase transmission of documents to the Québec Land Register. Legislative amendments are also required to develop and offer citizens and businesses value-added products.

☐ **Tightening of budget adoption rules**

Legislative amendments will be made to improve the adoption process for public body budget forecasts.

☐ **Administrative review of the farm property tax credit program**

The *Act respecting the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation* and the *Act respecting municipal taxation* will be amended to transfer responsibility for the administration of the farm property tax credit program to Revenu Québec.

☐ **Information sharing between Revenu Québec and the Ministère de la Famille**

The *Tax Administration Act* will be amended to enable Revenu Québec and the Ministère de la Famille to exchange information.

☐ **Change in the name of the Mining and Hydrocarbon Capital Fund to Capital Mines Énergie**

Legislative amendments will be made to change the name of the Mining and Hydrocarbon Capital Fund in the *Act respecting Investissement Québec* to Capital Mines Énergie.

☐ **Facilitate financing of the tourism industry**

The *Act respecting the Ministère du Tourisme* will be amended to enable any government department or body to participate in the funding of the Tourism Partnership Fund. The amendment will improve the funding potential of the fund while ensuring effective coordination of support for the tourism industry.

☐ **Contribution rule**

The bill will make an amendment to the *Code of Penal Procedure* to provide that, when the amount of the contribution added to a fine contains decimals, the amount will be rounded off to the nearest dollar.

Section F

QUÉBEC'S BUDGETARY STATISTICS

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INTRODUCTION

The publication of Québec's budgetary statistics is an integral part of the government's budgetary accountability. It is aimed, in particular, at monitoring the government's revenue and expenditure as a whole on an historical basis.

This edition contains certain changes in presentation, in particular:

- revenue by source and expenditure as a whole are presented on a consolidated basis, in accordance with the changes made in the other sections of the Québec Economic Plan;
- a chapter has been added on statistics adjusted for historical analysis;
- forecasts are presented for 2015-2016 to 2017-2018;
- notes to the tables are grouped at the end of each chapter.

This section consists of five chapters:

- consolidated results, which provide a summary of the change in consolidated revenue and expenditure;
- results by sector, which show the change in revenue and expenditure according to the various sectoral components included in the government reporting entity;
- consolidated financial transactions, which show the government's treasury and financing transactions;
- debt of the Québec government;
- statistics adjusted for historical analysis.

The first four chapters present the budgetary information as published in the public accounts, but also take into account certain changes made to government accounting over the years.

- When the impact of an accounting change on the historical statistics as a whole can be determined, the data published herein have been updated. Such situations pertain mainly to changes made to the budgetary structure and to those related to tax-funded expenditures.
- Conversely, when the impact of an accounting change cannot be determined precisely with reasonable effort, the data have not been updated. This gives rise to a break in the continuity of the data that makes it more difficult to interpret the change in data. Therefore, owing to the breaks in data caused by the 2006-2007 accounting reform and the line-by-line consolidation of the networks in 2009-2010, judgment must be exercised in comparing the data.

The information presented in Chapter 5 does not contain any breaks. The change in revenue and expenditure is presented on a comparable basis, i.e. it has been adjusted using parametric estimates for the various accounting changes.

1. CONSOLIDATED RESULTS

TABLE F.1

Summary of consolidated results
(millions of dollars)

	Own-source revenue	Federal transfers ⁽¹⁾	Consolidated revenue	Mission expenditures	Debt service	Consolidated expenditure
2017-2018	84 566	20 759	105 325	-91 906	-10 515	-102 421
2016-2017	82 386	20 180	102 566	-89 720	-10 418	-100 138
2015-2016	80 331	19 089	99 420	-87 634	-10 055	-97 689
2014-2015	77 398	18 539	95 937	-85 531	-10 270	-95 801
2013-2014	74 681	18 550	93 231	-84 336	-10 598	-94 934
2012-2013	70 480 ⁽⁵⁾	17 517	87 997	-80 673	-9 839	-90 512
2011-2012	69 472	16 938	86 410	-78 747	-9 451	-88 198
2010-2011	65 370	17 493	82 863	-76 318	-8 935	-85 253
2009-2010	61 494	17 110	78 604	-73 700	-7 844	-81 544
Without line-by-line consolidation of the networks⁽⁷⁾						
2008-2009	58 146	15 081	73 227	-66 354	-8 131	-74 485
2007-2008	58 393	14 733	73 126	-62 724	-8 752	-71 476
2006-2007	57 639	11 970	69 609	-58 893	-8 723	-67 616
Before government accounting reform in 2006-2007⁽⁷⁾						
2005-2006	52 641	11 122	63 763	-56 167	-7 559	-63 726
2004-2005	50 265	9 939	60 204	-53 419	-7 449	-60 868
2003-2004	47 428 ⁽⁵⁾	10 120	57 548	-50 665	-7 241	-57 906
2002-2003	45 667 ⁽⁵⁾	9 457	55 124	-48 720	-7 132	-55 852
2001-2002	43 084 ⁽⁵⁾	9 476	52 560	-46 227	-7 261	-53 488
2000-2001	44 756	8 319	53 075	-44 092	-7 606	-51 698
1999-2000	42 802	6 530	49 332	-41 952	-7 373	-49 325
1998-1999	40 325	8 292	48 617	-41 304	-7 187	-48 491
1997-1998 ⁽⁸⁾	37 636	6 461	44 097	-38 912	-7 342	-46 254

Contingency reserve	Surplus (deficit)	Amounts used from (allocated to) the reserve	Revenues dedicated to the Generations Fund	Accounting changes and other ⁽²⁾	Budgetary balance within the meaning of the Act after reserve ^{(3),(4)}
-400	2 504		-2 504		—
-400	2 028		-2 028		—
-300	1 431		-1 431		—
	136		-1 279	418	-725
	-1 703		-1 121		-2 824
	-2 515		-961	1 876 ⁽⁶⁾	-1 600
	-1 788		-840		-2 628
	-2 390		-760		-3 150
	-2 940	433	-725	58	-3 174
	-1 258	1 845	-587		—
	1 650	-1 201	-449		—
	1 993	-1 300	-584		109
	37				37
	-664				-664
	-358				-358
	-728				-728
	-928	950			22
	1 377	-950			427
	7				7
	126				126
	-2 157				-2 157

TABLE F.2

Consolidated own-source revenue⁽⁹⁾
(millions of dollars)

	Personal income tax	Contributions for health services	Corporate taxes	School property tax⁽¹⁰⁾
2017-2018	30 776	6 195	6 838	2 215
2016-2017	29 639	6 463	6 565	2 135
2015-2016	28 471	6 495	6 404	2 033
2014-2015	27 547	6 397	5 837	1 954
2013-2014	26 203	6 251	5 625	1 786
2012-2013	25 070	6 391	6 100	1 577
2011-2012	24 524	5 776	6 022	1 526
2010-2011	23 067	5 196	5 835	1 492
2009-2010	21 567	4 788	5 554	1 469
Without line-by-line consolidation of the networks⁽⁷⁾				
2008-2009	21 841	5 473	5 866	
2007-2008	22 409	5 251	6 314	
2006-2007	22 128	4 903	6 225	
Before government accounting reform in 2006-2007⁽⁷⁾				
2005-2006	19 742	4 902	6 048	
2004-2005	19 251	4 734	5 431	
2003-2004	18 213	4 513	5 189	
2002-2003	18 098	3 936	4 883	
2001-2002	18 090	4 163	4 829	
2000-2001	18 842	4 343	5 005	
1999-2000	17 886	4 183	4 306	
1998-1999	17 097	4 007	4 009	
1997-1998	16 066	3 893	4 032	

Consumption taxes	Duties and permits	Miscellaneous revenue	Government enterprises	Total
19 407	3 764	10 405	4 966	84 566
18 906	3 763	10 065	4 850	82 386
18 402	3 781	9 784	4 961	80 331
17 657	3 282	9 317	5 407	77 398
17 135	2 961	9 290	5 430	74 681
16 079	2 801	9 230	3 232 ⁽⁵⁾	70 480
15 548	2 823	8 504	4 749	69 472
13 908	2 696	8 338	4 838	65 370
12 633	2 411	8 194	4 878	61 494
12 784	2 234	4 935	5 013	58 146
12 350	1 957	5 087	5 025	58 393
12 083	1 584	4 499	6 217	57 639
11 875	1 492	4 028	4 554	52 641
11 704	1 470	3 329	4 346	50 265
11 123	1 225	3 350	3 815 ⁽⁵⁾	47 428
10 449	1 271	3 268	3 762 ⁽⁵⁾	45 667
9 097	1 216	2 958	2 731 ⁽⁵⁾	43 084
8 991	1 272	2 807	3 496	44 756
8 344	1 374	2 782	3 927	42 802
8 139	1 252	2 690	3 131	40 325
7 211	1 341	2 359	2 734	37 636

TABLE F.3

Consolidated consumption taxes⁽⁹⁾
(millions of dollars)

	Sales taxes	Fuel	Tobacco products	Alcoholic beverages	Total
2017-2018	15 418	2 382	977	630	19 407
2016-2017	14 896	2 355	1 027	628	18 906
2015-2016	14 342	2 340	1 093	627	18 402
2014-2015	13 775	2 215	1 069	598	17 657
2013-2014	13 264	2 310	1 010	551	17 135
2012-2013	12 542	2 150	907	480	16 079
2011-2012	12 131	2 064	913	440	15 548
2010-2011	10 679	1 910	873	446	13 908
2009-2010	9 748	1 698	754	433	12 633
Without line-by-line consolidation of the networks⁽⁷⁾					
2008-2009	10 008	1 692	654	430	12 784
2007-2008	9 515	1 707	707	421	12 350
2006-2007	9 175	1 728	758	422	12 083
Before government accounting reform in 2006-2007⁽⁷⁾					
2005-2006	8 935	1 708	818	414	11 875
2004-2005	8 575	1 761	965	403	11 704
2003-2004	8 006	1 736	973	408	11 123
2002-2003	7 421	1 691	935	402	10 449
2001-2002	6 384	1 579	741	393	9 097
2000-2001	6 480	1 581	554	376	8 991
1999-2000	5 811	1 605	555	373	8 344
1998-1999	5 658	1 604	523	354	8 139
1997-1998	4 964	1 532	371	344	7 211

TABLE F.4

Government enterprises⁽⁹⁾
(millions of dollars)

	Hydro-Québec	Loto-Québec	Société des alcools du Québec	Other	Total
2017-2018	2 700	1 174	1 108	-16	4 966
2016-2017	2 600	1 147	1 070	33	4 850
2015-2016	2 700	1 168	1 050	43	4 961
2014-2015	3 245	1 026	1 034	102	5 407
2013-2014	3 333	1 055	1 003	39	5 430
2012-2013	919 ⁽⁵⁾	1 194	1 030	89	3 232
2011-2012	2 545	1 196	1 000	8	4 749
2010-2011	2 478	1 247	915	198	4 838
2009-2010	2 978	1 252	867	-219	4 878
2008-2009	3 095	1 375	808	-265	5 013
2007-2008	2 926	1 360	761	-22	5 025
2006-2007	4 043 ⁽¹¹⁾	1 391	710	73	6 217
Before government accounting reform in 2006-2007					
2005-2006	2 323	1 537	657	37	4 554
2004-2005	2 405	1 511	546	-116	4 346
2003-2004	2 049	1 393	571	-198 ⁽⁵⁾	3 815
2002-2003	1 840	1 353	540	29 ⁽⁵⁾	3 762
2001-2002	1 041	1 352	489	-151 ⁽⁵⁾	2 731
2000-2001	1 160	1 358	471	507	3 496
1999-2000	1 090	1 289	442	1 106	3 927
1998-1999	754	1 167	408	802	3 131
1997-1998	636	1 068	378	652	2 734

TABLE F.5

Consolidated federal transfers⁽¹⁾
(millions of dollars)

	Equalization	Health transfers	Transfers for post-secondary education and other social programs	Canada Health and Social Transfer ⁽¹²⁾	Other programs	Total
2017-2018	10 501	6 095	1 666		2 497	20 759
2016-2017	10 030	5 944	1 629		2 577	20 180
2015-2016	9 521	5 487	1 542		2 539	19 089
2014-2015	9 286	5 282	1 588		2 383	18 539
2013-2014	7 833	5 290	1 534		3 893 ⁽¹³⁾	18 550
2012-2013	7 391	4 792	1 486		3 848 ⁽¹³⁾	17 517
2011-2012	7 815	4 511	1 488		3 124 ⁽¹³⁾	16 938
2010-2011	8 552	4 309	1 455		3 177	17 493
2009-2010	8 355	4 148	1 461		3 146	17 110
Without line-by-line consolidation of the networks⁽⁷⁾						
2008-2009	8 028	3 740	1 267		2 046	15 081
2007-2008	7 160	3 925	1 516		2 132	14 733
2006-2007	5 539	3 649	1 070		1 712	11 970
Before government accounting reform in 2006-2007⁽⁷⁾						
2005-2006	4 798	3 185	1 034		2 105	11 122
2004-2005	5 221	2 422	926		1 370	9 939
2003-2004	4 065			4 266	1 789	10 120
2002-2003	5 315			2 648	1 494	9 457
2001-2002	5 336			2 958	1 182	9 476
2000-2001	5 650			1 597	1 072	8 319
1999-2000	4 387			1 120	1 023	6 530
1998-1999	5 385			1 697	1 210	8 292
1997-1998	4 229			1 660	572	6 461

TABLE F.6

Consolidated mission expenditures⁽¹⁴⁾
(millions of dollars)

	Health and Social Services	Education and Culture	Economy and Environment	Support for Individuals and Families	Administration and Justice	Total
2017-2018	-39 395	-22 342	-12 752	-9 683	-7 734	-91 906
2016-2017	-38 372	-21 623	-12 545	-9 527	-7 653	-89 720
2015-2016	-37 637	-21 002	-12 326	-9 411	-7 258	-87 634
2014-2015	-36 793	-20 905	-11 458	-9 647	-6 728	-85 531
2013-2014	-35 602	-20 620	-11 859	-9 543	-6 712	-84 336
2012-2013	-34 174	-19 528	-11 316	-9 333	-6 322	-80 673
2011-2012	-32 473	-19 340	-11 491	-9 148	-6 295	-78 747
2010-2011	-31 175	-18 635	-11 293	-8 911	-6 304	-76 318
2009-2010	-30 003	-17 938	-10 543	-8 611	-6 605	-73 700
Without line-by-line consolidation of the networks⁽⁷⁾						
2008-2009	-27 028	-14 869	-9 993	-8 288	-6 176	-66 354
2007-2008	-25 300	-14 298	-9 391	-8 147	-5 588	-62 724
2006-2007	-23 658	-13 280	-8 575	-7 939	-5 441	-58 893
Before government accounting reform in 2006-2007⁽⁷⁾						
2005-2006	-22 481	-13 346	-7 806	-7 550	-4 984	-56 167
2004-2005	-21 552	-12 837	-7 276	-6 896	-4 858	-53 419
2003-2004	-19 953	-12 514	-7 274	-6 537	-4 387	-50 665
2002-2003	-18 683	-12 057	-7 231	-6 408	-4 341	-48 720
2001-2002	-17 826	-11 491	-6 763	-6 251	-3 896	-46 227
2000-2001	-16 711	-11 120	-6 825	-5 934	-3 502	-44 092
1999-2000	-15 360	-10 736	-6 673	-5 967	-3 216	-41 952
1998-1999	-15 072	-10 376	-6 253	-6 204	-3 399	-41 304
1997-1998	-13 329	-10 112	-5 715	-5 897	-3 859	-38 912

TABLE F.7

Consolidated debt service
(millions of dollars)

	Direct debt	Interest ascribed to the retirement plans ⁽¹⁵⁾	Employee future benefits ⁽¹⁶⁾	Total	% of consolidated revenue
2017-2018	-8 313	-2 215	13	-10 515	10.0
2016-2017	-7 951	-2 475	8	-10 418	10.2
2015-2016	-7 313	-2 745	3	-10 055	10.1
2014-2015	-7 101	-3 161	-8	-10 270	10.7
2013-2014	-7 219	-3 364	-15	-10 598	11.4
2012-2013	-6 755	-3 074	-10	-9 839	11.2
2011-2012	-6 635	-2 802	-14	-9 451	10.9
2010-2011	-6 283	-2 636	-16	-8 935	10.8
2009-2010	-5 537	-2 295	-12	-7 844	10.0
Without line-by-line consolidation of the networks ⁽⁷⁾					
2008-2009	-5 988	-2 116	-27	-8 131	11.1
2007-2008	-6 266	-2 436	-50	-8 752	12.0
2006-2007	-6 030	-2 643	-50	-8 723	12.5
Before government accounting reform in 2006-2007 ⁽⁷⁾					
2005-2006	-4 728	-2 831		-7 559	11.9
2004-2005	-4 662	-2 787		-7 449	12.4
2003-2004	-4 499	-2 742		-7 241	12.6
2002-2003	-4 484	-2 648		-7 132	12.9
2001-2002	-4 544	-2 717		-7 261	13.8
2000-2001	-5 012	-2 594		-7 606	14.3
1999-2000	-4 741	-2 632		-7 373	14.9
1998-1999	-4 773	-2 414		-7 187	14.8
1997-1998	-4 377	-2 965		-7 342	16.6

Notes to the tables in Chapter 1

- (1) Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.
- (2) The *Balanced Budget Act* stipulates that the budgetary balance must:
 - a) exclude the impact of the application of a new Canadian Institute of Chartered Accountants standard for the years preceding the changeover year proposed by the Institute;
 - b) take into consideration the effects of accounting changes, for a date subsequent to March 31, 2006, posted directly to accumulated deficits. This rule does not apply to accounting changes resulting from the implementation of the 2006-2007 accounting reform.
- (3) The consolidated budgetary balance for years prior to 2009-2010 does not take into account the changes made by the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (S.Q. 2009, chapter 38) to the mechanics of the reserve. As of 2009-2010, the data take the impact of the Act into account.
- (4) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account the allocations to and uses of the stabilization reserve.
- (5) Own-source revenue includes Hydro-Québec's extraordinary loss of \$1 876 million stemming from the closure of the Gentilly-2 nuclear power plant in 2012-2013 and the extraordinary losses of the Société générale de financement du Québec, i.e. \$358 million in 2003-2004, \$339 million in 2002-2003 and \$91 million in 2001-2002.
- (6) The *Balanced Budget Act* stipulates that the budgetary balance for fiscal 2012-2013 must be determined by excluding the result, shown in Hydro-Québec's annual consolidated financial statements, from activities abandoned following the decision to close the Gentilly-2 nuclear power plant.
- (7) From 2006-2007 to 2008-2009, the net results of the health and social services and education networks were established using the modified equity method. As of 2009-2010, the revenue and expenditure of the networks are consolidated line by line, like those of non-budget-funded bodies and special funds.
- (8) Data are not available prior to 1997-1998 because the government did not prepare consolidated financial statements.
- (9) Revenue for each component of own-source revenue includes that dedicated to the Generations Fund.
- (10) Since this tax is part of the education networks' revenue, it has been included in the government's consolidated financial statements only since the networks were consolidated line by line in 2009-2010.
- (11) Revenue from Hydro-Québec includes major gains on the disposal of investments it held in foreign businesses.
- (12) For 2003-2004 and previous years, this transfer was the main federal contribution to the funding of provincial health, post-secondary education, social assistance and social services programs. No breakdown of funding was provided for between the various spending sectors that the transfer helped to finance. Therefore, this transfer cannot be presented according to the basis used for subsequent years.
- (13) Revenue from other programs includes compensation for harmonization of the QST with the GST, totalling \$1 467 million in 2013-2014 and \$733 million in 2012-2013, as well as protection payments of \$362 million in 2012-2013 and \$369 million in 2011-2012.
- (14) Data are based on the best data available. However, certain data are reasonable estimates, in particular those for the earliest years.
- (15) Interest ascribed to the retirement plans corresponds to interest on the obligations relating to the retirement plans of public and parapublic sector employees less the investment income of the Retirement Plans Sinking Fund.
- (16) Employee future benefits correspond to interest on the obligation relating to the survivor's pension plan less the investment income of the Survivor's Pension Plan Fund and the interest on the obligation relating to accumulated sick leave less the investment income of the Accumulated Sick Leave Fund.

2. RESULTS BY SECTOR

TABLE F.8

Summary of results by sector
(millions of dollars)

	2009-2010 ⁽¹⁾	2010-2011	2011-2012	2012-2013
Revenue				
General fund	59 290	62 650	65 515	65 690
Special funds	8 910	9 577	10 732	11 186
Generations Fund	725	760	840	961
Specified purpose accounts	1 152	1 616	1 477	1 098
Non-budget-funded bodies	17 215	17 026	17 901	18 539
Health and social services and education networks	33 664	34 560	35 836	37 665
Tax-funded transfers ⁽²⁾	5 878	6 096	6 013	6 014
Consolidation adjustments ⁽³⁾	-48 230	-49 422	-51 904	-53 156
Consolidated revenue	78 604	82 863	86 410	87 997
Expenditure				
General fund	-58 215	-59 978	-61 503	-62 247
Special funds	-7 218	-7 916	-9 076	-9 476
Specified purpose accounts	-1 152	-1 616	-1 477	-1 098
Non-budget-funded bodies	-15 866	-15 627	-16 582	-17 213
Health and social services and education networks	-32 828	-33 602	-35 280	-36 768
Tax-funded expenditures ⁽²⁾	-5 878	-6 096	-6 013	-6 014
Consolidation adjustments ⁽³⁾	47 457	48 517	51 184	52 143
Mission expenditures	-73 700	-76 318	-78 747	-80 673
Debt service				
General fund	-6 240	-7 084	-7 348	-7 766
Consolidated entities ⁽⁴⁾	-1 604	-1 851	-2 103	-2 073
Consolidated debt service	-7 844	-8 935	-9 451	-9 839
Consolidated expenditure	-81 544	-85 253	-88 198	-90 512
Contingency reserve				
SURPLUS (DEFICIT)	-2 940	-2 390	-1 788	-2 515

2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
69 770	71 541	73 924	76 542	78 929
12 296	13 052	13 445	13 746	13 607
1 121	1 279	1 431	2 028	2 504
1 011	1 000	1 062	982	862
19 295	19 241	20 312	20 651	21 591
38 299	39 357	39 458	40 346	40 907
6 317	6 641	6 323	6 265	6 334
-54 878	-56 174	-56 535	-57 994	-59 409
93 231	95 937	99 420	102 566	105 325
-64 322	-65 342	-66 460	-68 238	-70 156
-10 793	-11 099	-11 379	-12 062	-12 001
-1 011	-1 000	-1 062	-982	-862
-18 140	-17 959	-19 231	-19 752	-20 813
-37 526	-38 602	-38 687	-39 526	-40 016
-6 317	-6 641	-6 323	-6 265	-6 334
53 773	55 112	55 508	57 105	58 276
-84 336	-85 531	-87 634	-89 720	-91 906
-8 434	-8 150	-8 019	-8 318	-8 283
-2 164	-2 120	-2 036	-2 100	-2 232
-10 598	-10 270	-10 055	-10 418	-10 515
-94 934	-95 801	-97 689	-100 138	-102 421
		-300	-400	-400
-1 703	136	1 431	2 028	2 504

TABLE F.9

General fund
(millions of dollars)

	Own-source revenue ^{(5),(6)}	Federal transfers ⁽⁷⁾	Total revenue	Program spending	Debt service	Total expenditure
2017-2018	60 036	18 893	78 929	-70 156	-8 283	-78 439
2016-2017	58 338	18 204	76 542	-68 238	-8 318	-76 556
2015-2016	56 888	17 036	73 924	-66 460	-8 019	-74 479
2014-2015	54 711	16 830	71 541	-65 342	-8 150	-73 492
2013-2014	53 242	16 528	69 770	-64 322	-8 434	-72 756
2012-2013	49 983 ⁽⁸⁾	15 707	65 690	-62 247	-7 766	-70 013
2011-2012	50 272	15 243	65 515	-61 503	-7 348	-68 851
2010-2011	47 225	15 425	62 650	-59 978	-7 084	-67 062
2009-2010	44 129	15 161	59 290	-58 215	-6 240	-64 455
2008-2009	45 152	14 023	59 175	-55 197	-6 639	-61 836
2007-2008	45 881	13 629	59 510	-51 774	-7 160	-58 934
2006-2007	46 184	11 015	57 199	-49 022	-7 185	-56 207
Before government accounting reform in 2006-2007						
2005-2006	42 391	9 969	52 360	-46 782	-7 042	-53 824
2004-2005	41 097	9 229	50 326	-45 480	-7 035	-52 515
2003-2004	38 849 ⁽⁸⁾	9 370	48 219	-43 357	-6 850	-50 207
2002-2003	37 332 ⁽⁸⁾	8 932	46 264	-41 865	-6 804	-48 669
2001-2002	35 652 ⁽⁸⁾	8 885	44 537	-40 088	-6 930	-47 018
2000-2001	37 441	7 895	45 336	-38 311	-7 248	-45 559
1999-2000	35 370	6 064	41 434	-35 955	-7 035	-42 990
1998-1999	32 906	7 813	40 719	-35 352	-6 853	-42 205
1997-1998	30 387	5 656	36 043	-32 954	-7 039	-39 993

TABLE F.10

Special funds⁽¹⁾
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Mission expenditures	Debt service	Total expenditure	Surplus (deficit)
2017-2018	8 544	4 652	411	13 607	-12 001	-1 724	-13 725	-118
2016-2017	8 651	4 674	421	13 746	-12 062	-1 538	-13 600	146
2015-2016	8 516	4 479	450	13 445	-11 379	-1 403	-12 782	663
2014-2015	7 997	4 536	519	13 052	-11 099	-1 375	-12 474	578
2013-2014	7 305	4 446	545	12 296	-10 793	-1 204	-11 997	299
2012-2013	6 768	4 258	160	11 186	-9 476	-1 047	-10 523	663
2011-2012	6 113	4 533	86	10 732	-9 076	-973	-10 049	683
2010-2011	5 139	4 056	382	9 577	-7 916	-817	-8 733	844
2009-2010	4 646	3 799	465	8 910	-7 218	-654	-7 872	1 038

TABLE F.11

Generations Fund⁽⁹⁾
(millions of dollars)

	Dedicated revenues										Deposits in the Generations Fund
	Water-power royalties		Indexation of the price of heritage electricity	Other contributions from Hydro- Québec	Mining revenues	Specific tax on alcoholic beverages	Unclaimed property	Investment income	Total	Other deposits	
	Hydro- Québec	Private producers									
2017-2018	684	96	220	215	150	500	15	624	2 504		2 504
2016-2017	652	95	170		109	500	30	472	2 028		2 028
2015-2016	658	98	98		80	100	50	347	1 431	108 ⁽¹⁰⁾	1 539
2014-2015	660	101	71			100	32	315	1 279		1 279
2013-2014	670	93					19	339	1 121	300 ⁽¹¹⁾	1 421
2012-2013	625	92					12	232	961		961
2011-2012	591	91					9	149	840		840
2010-2011	560	90					16	94	760		760
2009-2010	569	89					7	60	725		725
2008-2009	548	88					1	−50	587	132 ⁽¹²⁾	719
2007-2008	367	46					—	36	449	200 ⁽¹³⁾	649
2006-2007	65	11		500 ⁽¹⁴⁾			5	3	584		584

TABLE F.12

Specified purpose accounts
(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Mission expenditures	Debt service	Total expenditure	Surplus (deficit)
2017-2018	164	698	862	-862	—	-862	—
2016-2017	168	814	982	-982	—	-982	—
2015-2016	234	828	1 062	-1 062	—	-1 062	—
2014-2015	212	788	1 000	-1 000	—	-1 000	—
2013-2014	198	813	1 011	-1 011	—	-1 011	—
2012-2013	225	873	1 098	-1 098	—	-1 098	—
2011-2012	252	1 225	1 477	-1 477	—	-1 477	—
2010-2011	135	1 481	1 616	-1 616	—	-1 616	—
2009-2010	295	857	1 152	-1 152	—	-1 152	—
2008-2009	257	709	966	-966	—	-966	—
2007-2008	267	716	983	-983	—	-983	—
2006-2007	237	572	809	-809	—	-809	—
Before government accounting reform in 2006-2007							
2005-2006	229	836	1 065	-1 065	—	-1 065	—
2004-2005	211	387	598	-598	—	-598	—
2003-2004	219	451	670	-670	—	-670	—
2002-2003	242	263	505	-505	—	-505	—
2001-2002	193	329	522	-522	—	-522	—
2000-2001	158	185	343	-343	—	-343	—
1999-2000	138	141	279	-279	—	-279	—
1998-1999	121	181	302	-302	—	-302	—
1997-1998	119	486	605	-605	—	-605	—

TABLE F.13

Non-budget-funded bodies⁽¹⁾
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Mission expenditures	Debt service	Total expenditure	Surplus (deficit)
2017-2018	6 431	14 073	1 087	21 591	-20 813	-713	-21 526	65
2016-2017	6 564	13 012	1 075	20 651	-19 752	-725	-20 477	174
2015-2016	6 351	12 894	1 067	20 312	-19 231	-768	-19 999	313
2014-2015	6 194	12 418	629	19 241	-17 959	-898	-18 857	384
2013-2014	6 345	11 965	985	19 295	-18 140	-1 071	-19 211	84
2012-2013	6 136	11 316	1 087	18 539	-17 213	-1 137	-18 350	189
2011-2012	6 027	10 963	911	17 901	-16 582	-1 216	-17 798	103
2010-2011	5 829	10 593	604	17 026	-15 627	-1 192	-16 819	207
2009-2010	5 576	10 639	1 000	17 215	-15 866	-1 083	-16 949	266

TABLE F.14

Health and social services and education networks⁽¹⁾
(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Mission expenditures	Debt service	Total expenditure	Surplus (deficit)
2017-2018	6 395	34 219	293	40 907	-40 016	-891	-40 907	—
2016-2017	6 243	33 814	289	40 346	-39 526	-830	-40 356	-10
2015-2016	6 097	33 050	311	39 458	-38 687	-803	-39 490	-32
2014-2015	6 036	32 976	345	39 357	-38 602	-817	-39 419	-62
2013-2014	5 704	32 312	283	38 299	-37 526	-834	-38 360	-61
2012-2013	5 702	31 657	306	37 665	-36 768	-850	-37 618	47
2011-2012	5 527	30 079	230	35 836	-35 280	-851	-36 131	-295
2010-2011	5 234	29 016	310	34 560	-33 602	-798	-34 400	160
2009-2010	5 413	28 022	229	33 664	-32 828	-677	-33 505	159

TABLE F.15

Tax-funded expenditures and consolidation adjustments
(millions of dollars)

	Tax-funded expenditures ⁽²⁾		Consolidation adjustments ⁽³⁾					
	Own-source revenue	Mission expenditures	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Mission expenditures	Debt service
2017-2018	6 334	-6 334	-5 842	-52 944	-623	-59 409	58 276	1 096
2016-2017	6 265	-6 265	-5 871	-51 500	-623	-57 994	57 105	993
2015-2016	6 323	-6 323	-5 509	-50 423	-603	-56 535	55 508	938
2014-2015	6 641	-6 641	-5 672	-49 930	-572	-56 174	55 112	970
2013-2014	6 317	-6 317	-5 551	-48 723	-604	-54 878	53 773	945
2012-2013	6 014	-6 014	-5 309	-47 231	-616	-53 156	52 143	961
2011-2012	6 013	-6 013	-5 572	-45 575	-757	-51 904	51 184	937
2010-2011	6 096	-6 096	-5 048	-43 665	-709	-49 422	48 517	956
2009-2010	5 878	-5 878	-5 168	-42 460	-602	-48 230	47 457	810
Without line-by-line consolidation of the networks								
2008-2009	5 484	-5 484						
2007-2008	5 050	-5 050						
2006-2007	4 796	-4 796						
Before government accounting reform in 2006-2007								
2005-2006	4 226	-4 226						
2004-2005	3 705	-3 705						
2003-2004	3 183	-3 183						
2002-2003	3 146	-3 146						
2001-2002	2 678	-2 678						
2000-2001	2 718	-2 718						
1999-2000	2 849	-2 849						
1998-1999	3 017	-3 017						
1997-1998	3 226	-3 226						

Notes to the tables in Chapter 2

- (1) Prior to 2009-2010, separate data for special funds, non-budget-funded bodies and the health and social services and education networks cannot be obtained with reasonable effort.
- (2) Includes doubtful tax accounts.
- (3) Consolidation adjustments stem mainly from the elimination of transactions between entities in different sectors.
- (4) Includes consolidation adjustments.
- (5) Own-source revenue includes that of government enterprises.
- (6) Doubtful tax accounts are applied against revenue.
- (7) Federal transfers revenues are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.
- (8) Own-source revenue includes Hydro-Québec's extraordinary loss of \$1 876 million stemming from the closure of the Gentilly-2 nuclear power plant in 2012-2013 and the extraordinary losses of the Société générale de financement du Québec, i.e. \$358 million in 2003-2004, \$339 million in 2002-2003 and \$91 million in 2001-2002.
- (9) The Generations Fund began operations on January 1, 2007 pursuant to the *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter R-2.2.0.1).
- (10) Deposit of \$108 million from the accumulated surplus of the Commission des normes du travail.
- (11) Deposit of \$300 million from the Territorial Information Fund.
- (12) Deposit of \$132 million from the stabilization reserve derived from the sale of assets of the Société immobilière du Québec.
- (13) Deposit of \$200 million from the sums allocated to the budgetary reserve in 2006-2007.
- (14) Revenue from the sale of Hydro-Québec's investment in Transelec Chile.

3. CONSOLIDATED FINANCIAL TRANSACTIONS

TABLE F.16

Net financial requirements⁽¹⁾
(millions of dollars)

	Budgetary transactions		Non-budgetary transactions	
	Surplus (deficit)	Amounts used from (allocated to) the reserve	Investments, loans and advances	Capital expenditures ⁽²⁾
2017-2018	2 504		-1 532	-2 885
2016-2017	2 028		-3 281	-3 330
2015-2016	1 431		-1 539	-2 218
2014-2015	136		-2 146	-2 312
2013-2014	-1 703		-1 349	-3 033
2012-2013	-2 515		-775	-3 312
2011-2012	-1 788		-1 861	-3 623
2010-2011	-2 390		-3 173	-4 018
2009-2010 ⁽⁴⁾	-2 940	491 ⁽⁵⁾	-2 009	-3 939
Without line-by-line consolidation of the networks				
2008-2009	-1 258	1 845	-966	-2 150
2007-2008	1 650	-1 201	-2 658	-1 378
2006-2007	1 993	-1 300	-2 213	-1 177
Before government accounting reform in 2006-2007				
2005-2006	37		-1 182	-1 166
2004-2005	-664		-979	-1 083
2003-2004	-358		-1 125	-1 019
2002-2003	-728		-1 651	-1 482
2001-2002	-928	950	-1 142	-995
2000-2001	1 377	-950	-1 632	-473
1999-2000	7		-2 006	-359
1998-1999	126		-1 402	-217
1997-1998	-2 157		-1 315	-209

Non-budgetary transactions				
Net investments in the networks ⁽³⁾	Retirement plans	Other accounts	Total	Net financial surplus (requirements)
	3 335	-959	-2 041	463
	3 382	-589	-3 818	-1 790
	3 377	-818	-1 198	233
	3 662	-292	-1 088	-952
	3 352	2 324	1 294	-409
	2 898	-414	-1 603	-4 118
	2 918	-1 160	-3 726	-5 514
	3 526	1 901	-1 764	-4 154
	2 612	1 354	-1 982	-4 431
-622	2 274	645	-819	-232
-487	2 458	988	-1 077	-628
-1 002	2 559	-1 620	-3 453	-2 760
	2 310	-208	-246	-209
	2 134	174	246	-418
	2 219	-1 183	-1 108	-1 466
	2 007	217	-909	-1 637
	2 089	-589	-637	-615
	1 793	-631	-943	-516
	1 740	1 328	703	710
	1 020	996	397	523
	1 888	109	473	-1 684

Supplementary information on financing transactions

Consolidated non-budgetary transactions⁽¹⁾ (millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015
Investments, loans and advances				
General fund				
Government enterprises				
Share capital and investments				
Investissement Québec	-400	—	—	—
Change in the equity value of investments	-595	-363	-1 165	-812
Loans and advances				
Investissement Québec	-127	-46	-66	-47
Hydro-Québec	200	—	—	—
Loto-Québec	101	-34	-100	50
Other	1	—	1	1
Total government enterprises	-820	-443	-1 330	-808
Individuals, corporations and others	-790	21	1 024	-575
Total general fund	-1 610	-422	-306	-1 383
Consolidated entities	-251	-353	-1 043	-763
Total investments, loans and advances	-1 861	-775	-1 349	-2 146
Capital expenditures⁽²⁾				
General fund				
Net investments	-169	-168	-162	-136
Depreciation	150	147	145	136
Consolidated entities	-3 604	-3 291	-3 016	-2 312
Total capital expenditures	-3 623	-3 312	-3 033	-2 312
Retirement plans and other employee future benefits				
General fund				
Cost of vested benefits, ⁽⁶⁾ amortization and contributions	2 554	2 581	3 014	3 196
Interest on the actuarial obligation	4 931	5 079	5 382	5 630
Benefits, repayments and administrative expenses	-4 791	-4 991	-5 279	-5 477
Consolidated entities	224	229	235	313
Total retirement plans and other employee future benefits	2 918	2 898	3 352	3 662
Other accounts	-1 160	-414	2 324	-292
TOTAL NON-BUDGETARY TRANSACTIONS	-3 726	-1 603	1 294	-1 088

Supplementary information on financing transactions (cont.)				
Consolidated financing transactions⁽¹⁾ (millions of dollars)				
	2011-2012	2012-2013	2013-2014	2014-2015
Change in cash position				
General fund	82	951	-2 320	-3 839
Consolidated entities	69	-51	-17	-561
Total	151	900	-2 337	-4 400
Net borrowings				
General fund				
New borrowings	14 228	12 498	12 530	20 348
Repayment of borrowings	-7 503	-8 045	-8 446 ⁽⁷⁾	-11 051
Subtotal	6 725	4 453	4 084	9 297
Consolidated entities				
New borrowings	7 068	7 798	8 735	7 603
Repayment of borrowings	-4 321	-4 778	-6 480	-6 107
Subtotal	2 747	3 020	2 255	1 496
Total	9 472	7 473	6 339	10 793
Retirement Plans Sinking Fund,⁽⁸⁾ other retirement plan assets and funds dedicated to employee future benefits⁽⁹⁾	-3 269	-3 294	-3 172	-4 162
Generations Fund	-840	-961	-421⁽¹⁰⁾	-1 279
TOTAL FINANCING TRANSACTIONS	5 514	4 118	409	952

Notes to the tables in Chapter 3

- (1) A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.
- (2) Excludes investments made under public-private partnership that do not have an impact on net financial requirements because they were made and financed by private-sector partners.
- (3) From 2006-2007 to 2008-2009, the net investments of the health and social services and education networks were established using the modified equity method.
- (4) With line-by-line consolidation, the investments, loans and advances, capital expenditures and other accounts of the networks are taken into account as of 2009-2010.
- (5) Including an accounting change of \$58 million.
- (6) Actuarial value of retirement benefits credited during the fiscal year, calculated according to the actuarial projected benefit method prorated on service.
- (7) A sum of \$1 000 million from the Generations Fund was used for the repayment of borrowings.
- (8) This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to determine the debt service on the retirement plans liability.
- (9) Employee future benefits funds receive amounts used to cover employee future benefits (accumulated sick leave and survivor's pension) payable to government employees.
- (10) The change in the balance of the Generations Fund includes dedicated revenues of \$1 121 million, a deposit of \$300 million out of the Territorial Information Fund and the use of \$1 000 million for the repayment of borrowings.

4. DEBT OF THE QUÉBEC GOVERNMENT

TABLE F.17

Debt of the Québec government

Consolidated direct debt ⁽¹⁾		Retirement plans				
		Retirement plans liability ⁽²⁾	Less: Retirement Plans Sinking Fund		Net retirement plans liability	
(\$million)	(% of GDP)	(\$million)	(\$million)	(\$million)	(% of GDP)	
Data taking into account line-by-line consolidation of the networks						
2017-2018	202 916	50.4	93 037	-66 877	26 160	6.5
2016-2017	196 864	50.5	89 766	-63 108	26 658	6.8
2015-2016	189 413	50.2	86 441	-59 737	26 704	7.1
2014-2015	182 723	49.4	83 304	-55 263	28 041	7.6
2013-2014	174 794	48.4	79 870	-51 333	28 537	7.9
2012-2013	168 612	47.6	76 703	-48 344	28 359	8.0
2011-2012	158 887	46.1	74 079	-45 352	28 727	8.3
2010-2011	147 748	45.0	71 315	-42 265	29 050	8.9
2009-2010	136 074	43.3	67 989	-38 200	29 789	9.5
2008-2009 ⁽³⁾	129 745	41.3	65 803	-36 025	29 778	9.5
Without line-by-line consolidation of the networks ^{(4),(5)}						
2008-2009 ⁽³⁾	124 629	39.6	65 803	-36 025	29 778	9.5
2007-2008	118 032	38.6	63 442	-31 749	31 693	10.4
2006-2007	110 412	38.0	60 802	-26 877	33 925	11.7
2005-2006	103 339	36.9	58 214	-22 563	35 651	12.7
2004-2005	98 842	36.4	55 634	-18 333	37 301	13.7
2003-2004	93 325	36.0	53 414	-14 204	39 210	15.1
2002-2003	89 083	35.7	51 167	-11 840	39 327	15.8
2001-2002	84 451	35.4	49 106	-10 199	38 907	16.3
2000-2001	80 108	34.8	47 001	-7 059	39 942	17.3
1999-2000	76 166	35.4	45 129	-5 040	40 089	18.6
1998-1999	73 803	36.8	43 350	-2 209	41 141	20.5
1997-1998	69 995	36.3	42 242	-1 179	41 063	21.3
Before government accounting reforms ⁽⁶⁾						
1996-1997	52 625	28.5	26 475	-1 014	25 461	13.8
1995-1996	52 886	29.1	24 547	-923	23 624	13.0
1994-1995	52 468	30.1	22 846	-849	21 997	12.6
1993-1994	45 160	27.4	21 337	-854	20 483	12.4
1992-1993	39 231	24.4			19 668	12.2
1991-1992	33 106	21.0			18 143	11.5
1990-1991	29 637	19.0			16 227	10.4
1989-1990	27 699	18.4			14 320	9.5
1988-1989	27 091	18.9			12 597	8.8
1987-1988	26 819	20.4			10 883	8.3
1986-1987	25 606	21.4			9 353	7.8
1985-1986	23 633	21.5			7 998	7.3
1984-1985	21 216	20.6			6 729	6.5
1983-1984	18 880	20.1			5 545	5.9
1982-1983	16 485	18.9			4 489	5.1
1981-1982	14 184	17.2			3 428	4.2
1980-1981	12 247	16.5			2 420	3.3
1979-1980	9 472	14.2			1 598	2.4
1978-1979	8 325	14.0			915	1.5
1977-1978	7 111	13.3			620	1.2
1976-1977	6 035	12.4			354	0.7
1975-1976	4 955	11.9			179	0.4
1974-1975	4 030	10.9			67	0.2
1973-1974	3 679	11.7				
1972-1973	3 309	12.0				
1971-1972	2 920	11.9				
1970-1971	2 478	10.9				

Employee future benefits			Less: Generations Fund	Debt ⁽¹⁾	
Employee future benefits liability	Less: Funds dedicated to employee future benefits	Net employee future benefits liability			
(\$million)	(\$million)	(\$million)	(\$million)	(\$million)	(% of GDP)
Gross debt – Networks consolidated line by line					
1 580	-1 580	—	-13 009	216 067	53.7
1 499	-1 499	—	-10 505	213 017	54.7
1 492	-1 423	69	-8 477	207 709	55.0
1 488	-1 357	131	-6 938	203 957	55.1
1 422	-1 287	135	-5 659	197 807	54.8
1 376	-1 243	133	-5 238	191 866	54.2
1 243	-1 196	47	-4 277	183 384	53.2
1 222	-1 147	75	-3 437	173 436	52.9
1 238	-1 106	132	-2 677	163 318	51.9
1 114	-1 055	59	-1 952	157 630	50.1
Gross debt – Networks consolidated at modified equity value					
1 114	-1 055	59	-1 952	152 514	48.5
1 166	-433	733	-1 233	149 225	48.8
1 176	-424	752	-584	144 505	49.7
1 095	-357	738		139 728	49.9
1 086	-335	751		136 894	50.4
1 034	-338	696		133 231	51.4
1 083	-358	725		129 135	51.7
938	-384	554		123 912	51.9
894	-382	512		120 562	52.4
867	-361	506		116 761	54.2
805	-317	488		115 432	57.6
759	-292	467		111 525	57.8
Total debt – Data not restated to include the impact of the 1997-1998 and 2006-2007 accounting reforms					
				78 086	42.3
				76 510	42.2
				74 465	42.8
				65 643	39.8
				58 899	36.6
				51 249	32.5
				45 864	29.5
				42 019	28.0
				39 688	27.7
				37 702	28.7
				34 959	29.2
				31 631	28.7
				27 945	27.1
				24 425	26.0
				20 974	24.0
				17 612	21.4
				14 667	19.7
				11 070	16.6
				9 240	15.5
				7 731	14.4
				6 389	13.1
				5 134	12.3
				4 097	11.1
				3 679	11.7
				3 309	12.0
				2 920	11.9
				2 478	10.9

TABLE F.18

Net debt of the Québec government⁽⁷⁾

	(\$million)	(% of GDP)
2017-2018	189 085	47.0
2016-2017	188 564	48.4
2015-2016	187 098	49.6
2014-2015	185 580	50.1
2013-2014	183 252	50.7
2012-2013	180 037	50.9
2011-2012	167 700	48.6
2010-2011	159 333	48.6
2009-2010	151 608	48.2
Without line-by-line consolidation of the networks⁽⁴⁾		
2008-2009	134 237	42.7
2007-2008	124 681	40.7
2006-2007	124 297	42.8
Before government accounting reform in 2006-2007⁽⁸⁾		
2005-2006	104 683	37.4
2004-2005	99 042	36.4
2003-2004	97 025	37.4
2002-2003	95 601	38.3
2001-2002	92 772	38.9
2000-2001	88 208	38.3
1999-2000	89 162	41.4
1998-1999	88 810	44.3
1997-1998	88 597	45.9
Before government accounting reforms⁽⁶⁾		
1996-1997	64 833	35.2
1995-1996	61 624	34.0
1994-1995	57 677	33.1
1993-1994	51 837	31.4
1992-1993	46 914	29.2
1991-1992	41 885	26.6
1990-1991	37 558	24.1
1989-1990	34 583	23.0
1988-1989	32 819	22.9
1987-1988	31 115	23.7
1986-1987	28 716	24.0
1985-1986	25 735	23.4
1984-1985	21 455	20.8
1983-1984	17 298	18.4
1982-1983	15 038	17.2
1981-1982	12 569	15.2
1980-1981	14 326	19.2
1979-1980	10 836	16.3
1978-1979	8 460	14.2
1977-1978	7 058	13.2
1976-1977	6 353	13.0
1975-1976	5 044	12.1
1974-1975	4 093	11.1
1973-1974	3 651	11.6
1972-1973	2 992	10.9
1971-1972	2 645	10.8
1970-1971	2 290	10.1

TABLE F.19

Debt representing accumulated deficits

	Debt representing accumulated deficits for the purposes of the public accounts ^{(7),(9)}		Plus: Balance of the stabilization reserve	Debt representing accumulated deficits after taking into account the stabilization reserve	
	(\$million)	(% of GDP)	(\$million)	(\$million)	(% of GDP)
2017-2018	115 198	28.6		115 198	28.6
2016-2017	117 702	30.2		117 702	30.2
2015-2016	119 730	31.7		119 730	31.7
2014-2015	121 161	32.7		121 161	32.7
2013-2014	121 847	33.7		121 847	33.7
2012-2013	122 615	34.6		122 615	34.6
2011-2012	115 220	33.4		115 220	33.4
2010-2011	111 946	34.1		111 946	34.1
2009-2010	109 125	34.7		109 125	34.7
2008-2009	103 000	32.8	433	103 433	32.9
2007-2008	94 824	31.0	2 301	97 125	31.7
2006-2007	96 124	33.1	1 300	97 424	33.5
Before government accounting reform in 2006-2007⁽⁸⁾					
2005-2006	91 699 ⁽¹⁰⁾	32.7		91 699 ⁽¹⁰⁾	32.7
2004-2005	87 224	32.1		87 224	32.1
2003-2004	86 290	33.3		86 290	33.3
2002-2003	85 885	34.4		85 885	34.4
2001-2002	84 538	35.4		84 538	35.4
2000-2001	81 042	35.2	950	81 992	35.6
1999-2000	82 469	38.3		82 469	38.3
1998-1999	82 577	41.2		82 577	41.2
1997-1998	82 581	42.8		82 581	42.8
Before government accounting reforms⁽⁶⁾					
1996-1997	64 833	35.2		64 833	35.2
1995-1996	61 624	34.0		61 624	34.0
1994-1995	57 677	33.1		57 677	33.1
1993-1994	51 837	31.4		51 837	31.4
1992-1993	46 914	29.2		46 914	29.2
1991-1992	41 885	26.6		41 885	26.6
1990-1991	37 558	24.1		37 558	24.1
1989-1990	34 583	23.0		34 583	23.0
1988-1989	32 819	22.9		32 819	22.9
1987-1988	31 115	23.7		31 115	23.7
1986-1987	28 716	24.0		28 716	24.0
1985-1986	25 735	23.4		25 735	23.4
1984-1985	21 455	20.8		21 455	20.8
1983-1984	17 298	18.4		17 298	18.4
1982-1983	15 038	17.2		15 038	17.2
1981-1982	12 569	15.2		12 569	15.2
1980-1981	14 326	19.2		14 326	19.2
1979-1980	10 836	16.3		10 836	16.3
1978-1979	8 460	14.2		8 460	14.2
1977-1978	7 058	13.2		7 058	13.2
1976-1977	6 353	13.0		6 353	13.0
1975-1976	5 044	12.1		5 044	12.1
1974-1975	4 093	11.1		4 093	11.1
1973-1974	3 651	11.6		3 651	11.6
1972-1973	2 992	10.9		2 992	10.9
1971-1972	2 645	10.8		2 645	10.8
1970-1971	2 290	10.1		2 290	10.1

Notes to the tables in Chapter 4

- (1) Excludes deferred foreign exchange gains or losses, the debt contracted by the Financing Fund to finance government enterprises and entities not included in the reporting entity, and pre-financing.
- (2) Gross retirement plans liability less the assets of the retirement plans other than the Retirement Plans Sinking Fund.
- (3) To facilitate the comparability of historical data and due to the amounts involved, two results have been presented for 2008-2009. The first is obtained using the modified equity basis of consolidation for network organizations and the second, using the line-by-line consolidation method. The latter method is used as of fiscal 2009-2010.
- (4) Data for 2009-2010 to 2017-2018 are not comparable with those for previous years.
- (5) Data for 1997-1998 to 2005-2006 have been restated to take into account the impact of the accounting reform in 2006-2007.
- (6) Data for 1970-1971 to 1996-1997 are not comparable with those for 1997-1998 to 2017-2018.
- (7) For certain fiscal years, the data presented are the data restated in the public accounts for the subsequent fiscal year because of accounting changes.
- (8) Data for 1997-1998 to 2005-2006 are not comparable with those for 1970-1971 to 1996-1997 or with those for 2006-2007 to 2017-2018.
- (9) Before taking the stabilization reserve into account.
- (10) The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.

5. STATISTICS FOR HISTORICAL ANALYSIS

The budgetary statistics presented in this chapter do not contain any breaks linked to certain accounting reforms. The change in revenue and expenditure is presented on a comparable basis; in other words, it has been adjusted to the various accounting changes made, among other things, following the accounting reforms.

- These statistics are provided for historical analysis purposes.
- They reflect the best parametric estimates that could be made by the Ministère des Finances, and they will continue to evolve as changes are made to government accounting and hypotheses are refined.

Two major accounting reforms were carried out in 2006-2007 and 2009-2010. These reforms were designed, in particular, to consolidate the health and social services and education networks.

- In this regard, as of 2009-2010, the revenue and expenditure of the networks have been consolidated line by line, like those of non-budget-funded bodies and special funds.
 - Since this consolidation, roughly \$4.0 billion in own-source revenue of network institutions has been included in the government's consolidated revenue.
 - This includes, among other things, revenue in respect of the school property tax and various user contributions, such as tuition fees.
- These two accounting reforms have thus led to major breaks in the historical statistics published to date.

Method used to adjust the statistics according to the impact of accounting changes

When the impact of an accounting reform or an accounting change on historical statistics as a whole cannot be determined with reasonable effort, a break appears in the chronological series, making them more complicated to interpret.

- To offset such breaks, a method has been used to adjust the statistics.

Method used to adjust the statistics

The chronological series have been reconstructed using growth rates for the budgetary statistics, obtained using data from the public accounts and Chapter 1 of this section.

- For recent years, i.e. 2012-2013 to 2014-2015, growth rates were established using the public accounts for each year in order to take into account updated data for the previous year that could not be applied to the historical data as a whole, presented in Chapters 1 to 3.
 - For example, the restated data for 2012-2013 provided in Public Accounts 2013-2014 were used to determine the growth rate for consolidated revenue in 2013-2014 on the basis of a more accurate comparison.
- For earlier years where an accounting change caused a break in the chronological series, i.e. 2006-2007 and 2009-2010, the growth rate was calculated by subtracting the impact of the accounting change, indicated in the public accounts for those years, from the data in Chapter 1.

Illustration of the calculation of the growth of consolidated revenue in 2009-2010

(millions of dollars and per cent)

	Data from Chapter 1	Less: Impact	Comparable data	Growth rate
2009-2010	78 604	3 706	74 898	2.3
2008-2009	73 227		73 227	

These growth rates were then used to estimate, retroactively, the trajectory that the budgetary statistics would have followed if all of the accounting changes had been applied to the data up to 1997-1998.

- In other words, the marginal impact of this restatement on growth rates was then applied to all of the previous years.
- For example, the adjusted consolidated revenue for 2012-2013 was determined by dividing that for 2013-2014 by the growth rate between those two years determined previously, and so forth until 1997-1998.

Lastly, marginal differences were distributed among the series to ensure consistency with the balance.

TABLE F.20

Summary of consolidated results for historical analysis⁽¹⁾

	GDP	Consolidated revenue			Consolidated expenditure			Surplus (deficit)
	(\$million)	(\$million)	(% change)	(% of GDP)	(\$million)	(% change)	(% of GDP)	(\$million)
2017-2018	405 844	105 325	2.7	26.0	-102 421	2.3	25.2	2 904 ⁽²⁾
2016-2017	392 770	102 566	3.2	26.1	-100 138	2.5	25.5	2 428 ⁽²⁾
2015-2016	380 238	99 420	3.6	26.1	-97 689	2.0	25.7	1 731 ⁽²⁾
2014-2015	372 041	95 937	2.9	25.8	-95 801	0.9	25.8	136
2013-2014	362 876	93 252	6.1	25.7	-94 955	5.1	26.2	-1 703
2012-2013	356 086	87 859	2.0	24.7	-90 374	2.7	25.4	-2 515
2011-2012	347 890	86 172	4.3	24.8	-87 960	3.5	25.3	-1 788
2010-2011	331 898	82 634	5.4	24.9	-85 024	4.5	25.6	-2 390
2009-2010	318 153	78 386	2.3	24.6	-81 326	4.5	25.6	-2 940
2008-2009	314 125	76 601	0.2	24.4	-77 859	4.1	24.8	-1 258
2007-2008	307 962	76 429	5.1	24.8	-74 779	5.7	24.3	1 650
2006-2007	294 567	72 743	8.2	24.7	-70 750	5.3	24.0	1 993
2005-2006	282 650	67 224	5.9	23.8	-67 187	4.7	23.8	37
2004-2005	274 359	63 490	4.6	23.1	-64 154	5.1	23.4	-664
2003-2004	261 655	60 682	4.4	23.2	-61 040	3.7	23.3	-358
2002-2003	252 443	58 136	4.9	23.0	-58 864	4.4	23.3	-728
2001-2002	240 678	55 438	-0.9	23.0	-56 366	3.3	23.4	-928
2000-2001	233 188	55 918	7.5	24.0	-54 541	4.9	23.4	1 377
1999-2000	219 432	52 010	1.5	23.7	-52 003	1.7	23.7	7
1998-1999	203 523	51 253	10.1	25.2	-51 127	5.0	25.1	126
1997-1998	194 729	46 548	n.a.	23.9	-48 705	n.a.	25.0	-2 157

TABLE F.21

Consolidated revenue for historical analysis⁽¹⁾

	Own-source revenue ⁽³⁾			Government enterprises	Federal transfers		Consolidated revenue		
	(\$million)	(% change)	(% of GDP)		(\$million)	(% change)	(\$million)	(% change)	(% of GDP)
2017-2018	79 600	2.7	19.6	4966	20 759	2.9	105 325	2.7	26.0
2016-2017	77 536	2.9	19.7	4 850	20 180	5.7	102 566	3.2	26.1
2015-2016	75 370	4.7	19.8	4 961	19 089	3.0	99 420	3.6	26.1
2014-2015	71 991	3.6	19.4	5 407	18 539	0.0	95 937	2.9	25.8
2013-2014	69 465	3.3	19.1	5 241	18 546	6.0	93 252	6.1	25.7
2012-2013	67 243	4.3	18.9	3 117	17 499	2.2	87 859	2.0	24.7
2011-2012	64 473	6.9	18.5	4 585	17 114	-3.2	86 172	4.3	24.8
2010-2011	60 291	6.9	18.2	4 670	17 673	2.2	82 634	5.4	24.9
2009-2010	56 391	0.1	17.7	4 709	17 286	12.0	78 386	2.3	24.6
2008-2009	56 336	-0.3	17.9	4 835	15 430	2.5	76 601	0.2	24.4
2007-2008	56 529	3.7	18.4	4 842	15 058	23.0	76 429	5.1	24.8
2006-2007	54 505	5.8	18.5	5 995	12 243	7.9	72 743	8.2	24.7
2005-2006	51 495	4.7	18.2	4 384	11 345	11.9	67 224	5.9	23.8
2004-2005	49 169	5.3	17.9	4 183	10 138	-1.8	63 490	4.6	23.1
2003-2004	46 691	4.1	17.8	3 671	10 320	7.0	60 682	4.4	23.2
2002-2003	44 869	4.0	17.8	3 621	9 646	-0.1	58 136	4.9	23.0
2001-2002	43 158	-2.1	17.9	2 626	9 654	14.0	55 438	-0.9	23.0
2000-2001	44 092	6.0	18.9	3 358	8 468	27.3	55 918	7.5	24.0
1999-2000	41 581	4.5	18.9	3 776	6 653	-21.3	52 010	1.5	23.7
1998-1999	39 792	6.6	19.6	3 011	8 450	28.3	51 253	10.1	25.2
1997-1998	37 335	n.a.	19.2	2 629	6 584	n.a.	46 548	n.a.	23.9

TABLE F.22

Consolidated expenditure for historical analysis⁽¹⁾

	Mission expenditures			Debt service			Consolidated expenditure		
	(\$million)	(% change)	(% of GDP)	(\$million)	(% change)	(% of revenue)	(\$million)	(% change)	(% of GDP)
2017-2018	-91 906	2.4	22.6	-10 515	0.9	10.0	-102 421	2.3	25.2
2016-2017	-89 720	2.4	22.8	-10 418	3.6	10.2	-100 138	2.5	25.5
2015-2016	-87 634	2.5	23.0	-10 055	-2.1	10.1	-97 689	2.0	25.7
2014-2015	-85 531	1.4	23.0	-10 270	-3.1	10.7	-95 801	0.9	25.8
2013-2014	-84 355	4.7	23.2	-10 600	7.7	11.4	-94 955	5.1	26.2
2012-2013	-80 533	2.6	22.6	-9 841	4.1	11.2	-90 374	2.7	25.4
2011-2012	-78 511	3.2	22.6	-9 449	5.8	11.0	-87 960	3.5	25.3
2010-2011	-76 091	3.5	22.9	-8 933	13.9	10.8	-85 024	4.5	25.6
2009-2010	-73 483	5.5	23.1	-7 843	-4.4	10.0	-81 326	4.5	25.6
2008-2009	-69 654	5.6	22.2	-8 205	-7.2	10.7	-77 859	4.1	24.8
2007-2008	-65 935	6.5	21.4	-8 844	0.3	11.6	-74 779	5.7	24.3
2006-2007	-61 932	4.4	21.0	-8 818	11.9	12.1	-70 750	5.3	24.0
2005-2006	-59 308	5.2	21.0	-7 879	1.5	11.7	-67 187	4.7	23.8
2004-2005	-56 391	5.4	20.6	-7 763	2.9	12.2	-64 154	5.1	23.4
2003-2004	-53 493	4.0	20.4	-7 547	1.5	12.4	-61 040	3.7	23.3
2002-2003	-51 432	5.4	20.4	-7 432	-1.8	12.8	-58 864	4.4	23.3
2001-2002	-48 799	4.7	20.3	-7 567	-4.6	13.6	-56 366	3.3	23.4
2000-2001	-46 605	5.2	20.0	-7 936	3.2	14.2	-54 541	4.9	23.4
1999-2000	-44 315	1.6	20.2	-7 688	2.6	14.8	-52 003	1.7	23.7
1998-1999	-43 632	6.3	21.4	-7 495	-2.0	14.6	-51 127	5.0	25.1
1997-1998	-41 058	n.a.	21.1	-7 647	n.a.	16.4	-48 705	n.a.	25.0

TABLE F.23

Mission expenditures for historical analysis⁽¹⁾

	Health and Social Services		Education and Culture		Economy and Environment		Support for Individuals and Families		Administration and Justice		Mission expenditures	
	(\$million)	(% change)	(\$million)	(% change)	(\$million)	(% change)	(\$million)	(% change)	(\$million)	(% change)	(\$million)	(% change)
2017-2018	-39 395	2.7	-22 342	3.3	-12 752	1.7	-9 683	1.6	-7 734	1.1	-91 906	2.4
2016-2017	-38 372	2.0	-21 623	3.0	-12 545	1.8	-9 527	1.2	-7 653	5.4	-89 720	2.4
2015-2016	-37 637	2.3	-21 002	0.5	-12 326	7.6	-9 411	-2.4	-7 258	7.9	-87 634	2.5
2014-2015	-36 793	3.3	-20 905	1.4	-11 458	-3.7	-9 647	1.1	-6 728	0.5	-85 531	1.4
2013-2014	-35 610	4.7	-20 608	5.5	-11 894	5.1	-9 546	2.2	-6 697	5.9	-84 355	4.7
2012-2013	-34 025	5.2	-19 528	1.0	-11 322	-2.9	-9 336	2.9	-6 322	3.5	-80 533	2.6
2011-2012	-32 343	4.2	-19 327	3.8	-11 659	1.7	-9 072	2.6	-6 110	-0.1	-78 511	3.2
2010-2011	-31 051	3.9	-18 624	3.9	-11 459	7.1	-8 838	3.5	-6 119	-4.6	-76 091	3.5
2009-2010	-29 893	6.8	-17 933	3.2	-10 701	6.7	-8 543	3.9	-6 413	6.2	-73 483	5.5
2008-2009	-27 991	6.7	-17 380	3.9	-10 027	6.3	-8 220	1.6	-6 036	10.4	-69 654	5.6
2007-2008	-26 224	6.8	-16 727	7.6	-9 431	9.4	-8 087	2.5	-5 466	2.6	-65 935	6.5
2006-2007	-24 545	4.8	-15 551	0.6	-8 620	8.8	-7 888	4.1	-5 328	8.1	-61 932	4.4
2005-2006	-23 426	4.4	-15 455	4.0	-7 925	7.4	-7 575	9.6	-4 927	2.7	-59 308	5.2
2004-2005	-22 442	8.1	-14 855	2.6	-7 381	0.1	-6 914	5.6	-4 799	10.8	-56 391	5.4
2003-2004	-20 764	6.8	-14 473	3.8	-7 375	0.6	-6 550	2.0	-4 331	1.0	-53 493	4.0
2002-2003	-19 446	4.8	-13 946	5.0	-7 332	6.9	-6 422	2.5	-4 286	11.4	-51 432	5.4
2001-2002	-18 547	6.6	-13 287	3.2	-6 856	-1.0	-6 263	5.3	-3 846	11.2	-48 799	4.7
2000-2001	-17 402	8.9	-12 869	3.7	-6 924	2.4	-5 950	-0.5	-3 460	9.0	-46 605	5.2
1999-2000	-15 982	1.8	-12 415	3.4	-6 765	6.6	-5 978	-3.9	-3 175	-5.5	-44 315	1.6
1998-1999	-15 696	13.2	-12 010	2.7	-6 345	9.6	-6 222	5.4	-3 359	-11.8	-43 632	6.3
1997-1998	-13 864	n.a.	-11 689	n.a.	-5 791	n.a.	-5 906	n.a.	-3 808	n.a.	-41 058	n.a.

Notes to the tables in Chapter 5

- (1) Forecasts for 2015-2016 to 2017-2018, actual data for 2014-2015 and adjusted data for 2013-2014 and previous years.
- (2) Excludes the contingency reserve of \$300 million in 2015-2016 and \$400 million in 2016-2017 and 2017-2018.
- (3) Excludes revenue from government enterprises.

