

Québec Budget Plan 2021-2022

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Introduction

On Thursday, March 25, Québec Minister of Finance Eric Girard tabled the province's Budget Plan 2021-2022 (the Budget). The emphasis placed on balanced budgets in recent years by Premier François Legault's Coalition Avenir Québec (the CAQ) has been set aside in favour of a budget that reflects the economic and social impact the COVID-19 pandemic has had on the province in the past year.

We have examined certain tax measures in the Budget that will be relevant to Québec businesses.

Decrease in tax rate for small businesses (DPE)

The Government announced in the Budget that the tax rate applicable to small businesses would be reduced from 4 per cent to 3.2 per cent, matching the rate in effect in Ontario. Eligible small businesses will benefit from a reduced rate on the first \$500,000 of taxable income, representing a tax saving of \$4,000.

To benefit fully from the reduction, a business must establish that at least 50 per cent of its activities are in the primary or manufacturing sectors and that for the year in question it has at least 5500 paid employee hours. New in the Budget is a corresponding linear reduction in the DPE to the extent business activities in the primary or manufacturing sectors are between 25 per cent and 50 per cent or paid hours are between 5,500 and 5,000.

Owing to decreases in hours worked as a result of the COVID-19 pandemic, the provincial Government will allow businesses that benefitted from the DPE in the preceding tax year to again benefit from the lower rate, even if the number of paid hours for the current taxation year has not been achieved. As a result, small businesses will be able to apply to Revenu Québec to have the number of paid hours in the preceding taxation year used to determine eligibility for the DPE.

The reduced rate applies to businesses with fiscal years ending after March 25, 2021. Where several rates apply to a particular taxation year, the average of the various rates will be applied, taking account of the number of days in each period.

The investment and innovation tax credit (C3i)

Introduced in 2020, the investment and innovation tax credit is available to qualified businesses that invest in manufacturing or processing equipment, computer equipment or management software packages. The provincial Government hopes the credit will encourage investment in regions with a lower economic index. The credit applies to expenditures that exceed \$5,000 or \$12,000, depending on the type of asset acquired.

To promote economic recovery, the increased rates will be in effect from Budget day until January 1, 2023. The tax credit will be temporarily doubled, equaling 40 per cent in the low economic vitality zone, 30 per cent in the intermediate zone and 20 per cent in the high vitality zone. The increased rate will be applicable to assets acquired pursuant to a written agreement signed, and to construction that has commenced, before January 1, 2023.

Changes to the tax holiday for large investment projects

Under this policy, businesses that undertake a large investment project in Québec benefit from a tax holiday on certain revenues as well as a holiday from contributions to the Health Services Fund in respect of certain wages. An eligible investment must be at least \$100 million, although in designated regions the threshold is set at \$50 million. The holiday lasts for 15 years from the project start date, which can be no later than December 31, 2024.

Investment projects in manufacturing, wholesale trade, warehousing, data processing, hosting and related services, or development of digital platforms are eligible. The Budget broadens the policy to include investment projects in any sector that are designed to modernize a business through digital transformation.

The tax holiday is subject to a cap of 15 per cent of total investment expenditures. Going forward, however, this will be reviewed to allow for corresponding adjustments in respect of taxation years during the start-up period.

For certain investment projects, the 60-month start-up period has been extended by one year to 72 months. The program will also be changed to allow businesses to select the date on which the tax holiday will begin. The date can be based on the investment expenditure threshold or the date the project begins.

Removal of requirement to obtain advanced ruling for R&D tax credits

Various tax credits are available to Canadian businesses that conduct scientific research and experimental development activities in Québec (R&D). The salaries and wages R&D tax credit applies to salaries and wages paid by businesses that conduct their own R&D activities. The university R&D tax credit applies to 80 per cent of a research contract with a university or eligible public research centre.

Previously, a taxpayer could only receive the tax credit if a favourable advanced ruling had been obtained from Revenu Québec. The Budget will remove this requirement,

replacing it by changes to the information Revenu Québec will need from the taxpayer to confirm eligibility. No application for an advanced ruling will be required.

Conclusion

Overall, the Budget is designed to respond to the economic and social consequences of the COVID-19 pandemic. The resulting deficit will last until 2027 and should amount to some \$12.3 billion by the end of the 2021-2022 fiscal year. The Government is taking steps to improve a number of programs that provide financial assistance to those sectors most impacted by the pandemic. Minister Girard is counting on a recovering economy to help the province return to fiscal balance.

By

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