



## Highlights of the 2020-2021 Quebec Budget

March 10, 2020

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Quebec's Finance Minister Éric Girard delivered the province's 2020-2021 budget on March 10, 2020. Consistent with last year's forecasts, the budget still predicts a balanced budget for 2020-2021. The budget anticipates ending fiscal 2019-2020 with a \$1.9-billion surplus and expects to keep the budget balanced in fiscal 2020-2021, after depositing \$2.7 billion in the Generations Fund.

The budget does not propose changes to personal or corporate tax rates. The budget provides major reinvestment to build a green economy and to improve services and meet the needs of Quebecers.

The tax highlights of the budget are as follows.

### Corporate income tax rates

The budget does not announce changes to the province's corporate tax rates. As a result, Quebec's corporate income tax rates remain as follows:

Corporate Income Tax Rates — As of January 1, 2020		
	Quebec	Combined Federal and Quebec
General	11.5%	26.5%
M&P	11.5%	26.5%
Small business <sup>1</sup>	5%	14%

<sup>1</sup> On first \$500,000 of active business income.

### Changes to corporate tax measures

*Refundable tax credit for investments and innovation.*

The budget introduces a refundable tax credit for investments and innovation that will be granted to a qualified corporation that acquires, after March 10, 2020 and before January 1, 2025:

- Manufacturing or processing equipment
- Computer equipment, or
- Certain management software packages.

The credit will be calculated on the portion of the expenses incurred to acquire the property in excess of \$12,500 for manufacturing and processing equipment (CCA classes 43 and 53) and \$5,000 for computer hardware and management software package (CCA classes 50 and 12 respectively). The applicable tax credit rate, in respect of a particular property, will be available up to 20% and will be determined based on the economic vitality index of the region where the property will be acquired to be used mainly (for property acquired to be used mainly in the intermediate zone the rate will be 15%, and for property acquired to be used mainly in the high economic vitality zone the rate will be 10%).

**Illustration of the advantages of the C3i for investments of \$200,000 by an SMB located in Gaspésie**  
 (dollars)

Investment type	Cost	ITC (24% rate)	C3i (20% rate)
Manufacturing equipment(1)	125,000	27,000	22,500
Computer hardware(2)	25,000	—	4,000
Management software package(2)	50,000	—	9,000
<b>TOTAL</b>	<b>200,000</b>	<b>27,000</b>	<b>35,500</b>
<b>Gain with the C3i</b>			<b>+8,500</b>

(1) An eligible expense threshold of \$12,500 per property applies to manufacturing equipment.

(2) An eligible expense threshold of \$5,000 per property applies to computer hardware and management software packages.

The tax credit for investments and innovation to which a qualified corporation will be entitled, for a taxation year, may be refundable for businesses with assets and gross income not exceeding \$50 million, partly refundable for corporations with assets or gross income exceed \$50 million but less than \$100 million or non-refundable for corporations with assets and gross income of \$100 million or more. The non-refundable portion of the tax credit of a taxation year may be carried over to another taxation year. The refundable portion of the tax credit will be determined based on the qualified corporation's assets and gross income.

The tax credit for investments and innovation will replace the tax credit for investments. Nevertheless, a corporation may, on certain conditions, elect to receive the tax credit for investments according to its current terms and conditions.

#### *Tax holiday for large investments projects*

Quebec offers a tax holiday for a maximum of 15 years. The tax assistance relating to a large investment project may not exceed 15% of the total qualified capital investments relating to the project, determined on the date that the tax-free period begins.

The budget extends the time limit for submitting an application for an initial qualification certificate or for amending the initial qualification certificate by four years (i.e. to December 31, 2024).

To claim the tax holiday, a corporation or partnership must obtain an initial qualification certificate and annual certificates issued by the Minister of Finance. An application for an initial certificate must be made before the investment project begins to be carried out and before December 31, 2020.

An application for amendment of an initial qualification certificate must be filed with the Minister of Finance before the second investment project begins to be carried out, no later than December 31, 2020 and no later than the date the application for the first annual certificate is made for the first investment project.

#### *Incentive deduction for the commercialization of innovations*

The budget announces a new incentive in the form of a deduction for the commercialization of innovations in Québec (IDCI) that will apply as of January 1, 2021. This deduction will enable a corporation that commercializes a qualified intellectual property asset developed in Québec to benefit from an effective tax rate of 2% (instead of the current corporate income tax basic rate of 11.5% in Québec) on the qualified portion of its taxable income attributable to that qualified intellectual property asset.

A qualified asset for this deduction is a legally protected incorporeal property that is an invention protected by a patent or a certificate of supplementary protection or a plant breeder's rights; or a software protected by copyright. To qualify as a qualified intellectual property asset, the property must also result from R&D activities carried out in whole or in part in Québec.

#### *Expenditure exclusion threshold for certain income tax credits for R&D*

The budget eliminates the exclusion threshold for qualified expenditures relating to:

- A university research contract
- An eligible research contract entered into with an eligible public research center
- A pre-competitive research project carried out in private partnership, or

- Fees or dues paid to an eligible research consortium.

The elimination of the expenditure exclusion threshold will not apply to the “R&D salary” refundable tax credit. However, for the purposes of calculating that “R&D salary” tax credit, the rule providing for the splitting of the exclusion threshold among the various R&D tax credits will continue to apply as if the definition of reducible expenditures still applied to the other refundable R&D tax credits.

These amendments will apply to expenditures incurred by a taxpayer or partnership for a taxation year or fiscal period, as applicable, that begins after March 10, 2020 relating to R&D work carried out after that day.

#### *Synergy capital tax credit*

The budget introduces a new non-refundable tax credit that will be granted to a qualified investor (a corporation, other than a financial institution, a real estate sector corporation or a corporation whose activities consist mainly in granting loans or making investments), that subscribes shares of the capital stock of a qualified corporation in the following sectors:

- Life sciences,
- Manufacturing or processing,
- Green technologies,
- Artificial intelligence
- Information technologies.

A qualified corporation is a Canadian controlled private corporation with a permanent establishment in Quebec with paid up capital of less than \$ 15 million and gross income of less than \$ 10 million. The credit will amount to a maximum of \$225,000 annually for a qualified investor.

The credit will be calculated at a rate of 30% on the amount paid by the corporation for subscription of share (not exceeding \$750,000, of the amounts each of which is an eligible investment of the investor for the year). The shares subscribed must be retained by the corporation for a minimum period of five years.

The portion of the tax credit of a taxation year that cannot be used to reduce the tax of the qualified investor, for the year, may be carried back to the preceding three years or forward to the following 20 years. However, the credit may not be carried to a taxation year ended before January 1, 2021.

The synergy capital tax credit will apply in respect of a share subscription carried out after December 31, 2020. Investissement Québec will accept an application for the issuing of an authorized placement certificate that is filed after December 31, 2020.

### *Tax credit for SMEs for persons with a severely limited capacity for employment*

The budget introduces a new refundable tax credit that will be equal to the amount of the employer contributions paid by the eligible corporation in respect of such an employee (i.e., the contributions regarding the parental insurance; the labour standards; the Régie de l'assurance maladie du Québec; and the Québec Pension Plan).

An eligible corporation means a corporation, other than certain excluded corporations, that has an establishment in Québec and carries on a business in Québec, whose paid-up capital, for the year, is less than \$15 million and, except where the corporation is a primary and manufacturing sectors corporation for the year, whose total remunerated hours, for the year, exceeds 5,000.

These changes will apply in respect of a taxation year ending after December 31, 2019.

### *Refundable tax credit for Québec film or television production*

The budget amends the *Act Respecting the Sectoral Parameters of Certain Fiscal Measures* (Sectoral Act) so that the conditions defining a film adapted from a foreign format in the case of a film whose primary market is the television market also apply to a film whose primary market is the online broadcasting market.

The budget also proposes to amend the Sectoral Act so that, like films whose primary market is television broadcasting, certain French-language films whose primary market is online broadcasting will benefit from the higher base rate for French-language film productions of 40% and 36%.

These amendments will apply to a film or television production for which an application for an advance ruling, or an application for a qualification certificate if no application for an advance ruling was previously filed for the production, is filed with to SODEC after March 10, 2020.

Finally, the tax legislation will be amended so that financial assistance granted under the Soutien à la production de courts métrages et de webséries program by the Ville de Québec in partnership with the Ministère de la Culture et des Communications and under the Soutien à la production de longs métrages et de séries télévisées program by the Ville de Québec in partnership with the Ministère de la Culture et des Communications and the Secrétariat à la Capitale-Nationale are excluded amounts of assistance for the purposes of the refundable tax credit for Québec film or television production.

This amendment will apply to financial assistance granted after March 6, 2019.

### *Refundable tax credit for sound recordings*

The budget raises the limit on labour expenditures eligible for the refundable tax credit for sound recordings to 65% of the production costs of a qualified property.

This amendment will apply in respect of a qualified property for which an application for an advance ruling, or an application for a qualification certificate if no application for an

advance ruling was previously filed, is filed with the Société de développement des entreprises culturelles after March 10, 2020.

#### *Refundable tax credit for the production of performances*

The budget raises the limit of the qualified labour expenditures for the refundable tax credit for the production of performances to 65% of the production costs of the performance. However, the maximum amounts of the tax credit in respect of a qualified performance, whether it is a musical comedy, a comedy show or any other show, remain unchanged.

This change will apply in respect of a performance whose first eligibility period ends after March 10, 2020 and for which an application for an advance ruling, or an application for a qualification certificate if no application for an advance ruling was previously filed for that period, is filed with the Société de développement des entreprises culturelles after that day.

#### *Refundable tax credits for multimedia titles*

The budget amends the Sectoral Act to specify the level of interactivity required for a multimedia title to be recognized by Investissement Québec as an eligible multimedia title for the purposes of both the tax credit – general component and the tax credit – specialized component. As a result, a title may be considered to be controlled by software allowing interactivity if the conditions respecting the user's participation in the action of the title are met for all or substantially all of the action.

This amendment will apply to an application for a certificate filed with Investissement Québec after March 10, 2020 for a taxation year beginning after that day.

#### *Tax credits for the development of e-business (TCEB)*

The budget amends the Sectoral Act so that an activity involving the design or development of e-commerce solutions allowing a monetary transaction between the person on behalf of whom the design or development is carried out and that person's customers will no longer be an eligible activity for the purposes of the TCEB.

However, such an activity involving the design or development of e-commerce solutions may be an eligible activity if it is incidental to an eligible activity relating to the development or integration of information systems or of technology infrastructures.

This change will apply to a taxation year of a corporation beginning after March 10, 2020.

#### *Compensation tax for financial institutions*

The budget introduces, as of April 1, 2020, three new concepts for the purpose of the compensation tax for financial institutions which are the following expressions:

- “Independent loan corporation”
- “Independent trust corporation”

- “Independent corporation trading in securities”.

Consequently, an independent loan corporation, independent trust corporation or independent corporation trading in securities will be subject to the compensation tax for financial institutions, as of April 1, 2020, at the following rates:

- For the period from April 1, 2020 to March 31, 2022: 1.32%
- For the period from April 1, 2022 to March 31, 2024: 0.90%.

Also, the maximum amount subject to tax that will be applicable to those corporations, as of April 1, 2020, will be \$275 million.

#### *Income-averaging and carry-over period for certified forest producers*

The budget extends the income-averaging mechanism for certified forest producers in respect of a private forest for a five-year period (i.e., until January 1, 2026). Also, the budget increases the carry-over period to ten years.

These changes apply for the purposes of both income tax and the individual contribution to the Health Services Fund. The sales of timber made by a certified forest producer in respect of a private forest that are completed after March 17, 2016 and before March 10, 2020 will continue to benefit from the seven-year averaging period.

#### *Deduction for innovative manufacturing corporations (DIC)*

Taking into account the replacement of the DIC by the IDCI, the DIC will be eliminated for a corporation whose taxation year begins after December 31, 2020.

#### *Refundable tax credit relating to information technology integration*

In view of the introduction of the new tax credit for investments and innovation (C3i), the refundable tax credit relating to IT integration will be eliminated. Except for some limited specific cases, Investissement Québec will not accept an application for a certificate in respect of an IT integration contract if the application is submitted after March 10, 2020.

#### *Tax-free reserve for Québec ship owners*

The budget eliminates the tax-free reserve for Québec ship owners as of March 11, 2020. The budget states that an analysis of the results of this measure since it was introduced shows that it does not fulfill a need for the businesses concerned, given that no corporation has benefited from it since it was introduced.

#### **Personal tax rates**

The budget does not announce changes to personal tax rates. However, as a result of the previously legislated reductions to the non-eligible dividends tax credit, Quebec’s personal income tax rates will be as follows:

<b>Personal Combined Federal/Provincial Top Marginal Rates</b>			
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Interest and regular income	53.31%	53.31%	53.31%
Capital gains	26.65%	26.65%	26.65%
Eligible dividends	40.11%	40.11%	40.11%
Non-eligible dividends	47.14%	48.02%	48.02%

## Changes to personal tax measures

### *Introduction of a refundable tax credit for caregivers*

The budget replaces the four existing components of the tax credit for informal caregivers of persons of full age by the new refundable tax credit, called the “tax credit for caregivers,” in 2020. This new credit comprising the following two components:

- Component 1 — A universal basic tax assistance of \$1,250 (in the case of co-residency) and reducible assistance of \$1,250 (no co-residency requirement) for a caregiver providing care to a person aged 18 or older who has a severe and prolonged impairment and needs assistance in carrying out a basic activity of daily living
- Component 2 — A universal tax assistance of \$1,250 for a caregiver who supports and co-resides with a relative aged 70 or older.

An individual who is resident in Québec at the end of a particular year—or, if the individual dies in the year, on the date of the individual's death—will be able to claim, for that year, a refundable tax credit of \$1,250 in respect of each person qualifying as an eligible care receiver throughout the minimum period of the individual's co-residency with that person. This basic assistance will apply for both Component 1 and Component 2 of the new tax credit.

Furthermore, Component 1 of the new tax credit provides a reducible additional amount of up to \$1,250. This assistance will be in addition to the basic assistance if the caregiver co-resides with the eligible care receiver. However, if the caregiver does not co-reside with the eligible care receiver, this assistance will be the only amount to which the caregiver will be entitled in respect of that person.

The \$1,250 amount will be reduced, according to a rate of 16% for each dollar of the eligible care receiver's income that exceeds the reduction threshold applicable for the year. For 2020, the reduction threshold is \$22,180. Thus, in 2020, where the eligible care receiver's net income is \$29,993 or more, a caregiver who does not co-reside with the eligible care receiver will not receive any tax assistance, but a caregiver that does co-reside with the eligible care receiver will receive the universal basic amount of \$1,250, provided the minimum co-residency period required for the purposes of the tax credit is respected.

The government will allow the basic universal amount of \$1,250 under Component 1 or Component 2 of the tax credit to be paid by advance payments, on a monthly basis, as of

2021. Furthermore, the reducible amount under Component 1 of the new tax credit for caregivers cannot be paid in advance to the caregiver.

#### Application date

The new refundable tax credit for caregivers comprising two new components replaces the four components tax credit for informal caregivers of persons of full age as of January 1, 2020.

#### *Changes to the other tax credits relating to informal caregivers*

Currently, the *Taxation Act*, in addition to the existing tax credit for informal caregivers of persons of full age—which is replaced by the refundable tax credit for caregivers—provides for two other refundable tax credits relating to informal caregivers that have not reached the targeted clientele:

- The refundable tax credit for respite expenses, also called the “tax credit for respite of caregivers”
- The refundable tax credit for persons providing respite to informal caregivers, also called the “tax credit for volunteer respite services.”

The budget eliminates these two tax credits, as of January 1, 2021. For 2020, an individual will be able to claim, in respect of the same eligible care receiver, the refundable tax credit for caregivers or the refundable tax credit for respite expenses or refundable tax credit for volunteer respite services.

#### *Refundable tax credit for solidarity to the surviving spouse*

The budget eliminates the requirement for a surviving spouse qualifying as the cohabiting spouse of the applicant for the tax credit at the end of the base year relating to a particular payment period to normally apply to Revenu Québec to continue receiving amounts of the solidarity tax credit to which the couple is entitled for the payment period relating to that base year. This change is intended to facilitate the administration of the solidarity tax credit and allow surviving spouses to continue receiving the government assistance provided by this tax credit as soon as possible following the death of their spouse.

The new simplification measure for the surviving spouse will apply in all files where the death of the spouse claiming the solidarity tax credit occurs on or after July 1, 2020.

#### Other announcements

##### *Rebate program for the acquisition of an electric vehicle*

To support Quebecers' energy transition, the government is ensuring the continued financing, until March 31, 2021, of rebates of up to \$8,000 on the purchase of an electric vehicle and \$4,000 on the purchase of an all-electric used vehicle.

In 2019-2020, the \$8,000 maximum rebate for the acquisition of a vehicle is only available for new vehicles whose manufacturer's suggested retail price is less than \$75,000. A maximum rebate of \$3,000 is available for people who buy all-electric and hydrogen-powered vehicles whose price is between \$75,000 and \$125,000.

In 2020-2021, the \$8,000 rebate will only be available for new vehicles whose manufacturer's suggested retail price is less than \$60,000, and the \$3,000 rebate will be abolished. The rebate offered for used all-electric vehicles corresponds to 50% of the rebate for a new vehicle of the same model, up to a maximum of \$4,000.

### *Chauffez vert program*

The Chauffez vert program aims to encourage homeowners who use fossil fuels, other than natural gas, as a source of heating to adopt a system using renewable energy, such as hydroelectricity. It allows homeowners who want to replace a fossil fuel system with a renewable energy system to benefit from financial support of up to:

- \$1,275 for replacing a space heating system
- \$250 for replacing a water heating system.

In order to continue the Chauffez vert program for the period January 1, 2021 to March 31, 2026, the government is providing \$149.7 million in funding from the Electrification and Climate Change Fund.

### *Strengthening corporate transparency*

To continue its efforts to strengthen corporate transparency, the government will:

- Require businesses to declare information on beneficial owners to the Registraire des entreprises du Québec (REQ)
- Make it possible to do searches in the enterprise register using the name of a natural person
- Prohibit the issue of subscription warrants or stock options in bearer form.

The concept of “beneficial owner” refers essentially to natural persons:

- Who ultimately exercise effective control over a legal person or a particular legal entity
- Who ultimately own or control a legal person or a particular legal entity
- On whose behalf a transaction is being conducted.

Accordingly, the following information must be disclosed to the REQ:

- Surname and given name
- Month and year of birth
- Type of control exercised and percentage held
- Residential address for service of a natural person who ultimately has a significant interest.

In cases where ownership or control is ultimately held through a trust, the names of the settlor, the trustee and the beneficiaries of the trust will also have to be disclosed.

The requirement to transmit to the REQ information on beneficial owners will apply to most of the businesses currently required to register. Essentially, this includes legal persons established for a private interest, partnerships and trusts operating a commercial enterprise, regardless of whether these entities were constituted in Québec.

In addition to the information currently registered by a legal person established for a private interest, the latter will have to identify the natural persons who:

- Hold, directly or indirectly, at least 25% of the legal person's voting shares
- Hold, directly or indirectly, at least 25% of all the legal person's shares measured by fair market value
- Exercise direct or indirect control or direction over at least 25% of the legal person's voting shares or all of the legal person's shares measured by fair market value
- Have any direct or indirect influence that, if exercised, would result in control in fact of the legal person
- Hold jointly a proportion of shares or exercise control, direction or influence as contemplated by one of the foregoing situations or having entered into an agreement for that purpose.

The definition of beneficial owner will be harmonized with that of “individual with significant control” in the *Canada Business Corporations Act*.

In the case of partnerships and trusts, the rules applicable to legal persons established for a private interest will be adapted to identify, where applicable, the natural person(s) who control them or benefit directly or indirectly from them.

The budget notes that these measures will be included in a bill to be tabled in the coming months.

**We can help**

Your KPMG adviser can help you assess the effect of the tax changes in this year's Quebec budget on your personal finances or business affairs, and point out ways to realize any tax savings. We can also keep you abreast of the progress of these proposals as they make their way into law.

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