

2007-2008 QUEBEC BUDGET HIGHLIGHTS

February 21, 2007

The Finance Minister, Michel Audet, presented the 2007-2008 budget at the National Assembly yesterday. The following is a **summary** of the highlights contained in the budget.

A) Measures concerning individuals

- **Personal** income taxes will be reduced starting January 1, 2008. The reduction will be in the form of an increase in the ceilings and thresholds establishing the taxable income brackets. The **first** bracket will cover the first \$32 000 of taxable income. The second bracket will cover taxable income exceeding \$32 000 but not exceeding \$64 000, and the third bracket will cover taxable income exceeding **\$64 000**.
- A new refundable tax credit will be introduced for **families** who save for their children's post-secondary education via a registered education savings plan. The refundable tax credit will be granted to a trust governed by an education savings plan and will apply to contributions made after February 20, 2007. The financial assistance will generally be equivalent to 10% of the first \$2 000 of **annual** contributions for children **under** age 18, up to a maximum of \$3 600 per child on a cumulative basis.
- Changes will be made, as of the 2007 taxation year, to the **rules** of the tax credit for **minor** children engaged in vocational training or post-secondary studies. The **rules** will be made more favourable to parents.
- As of the 2007 taxation year, the tax credit for adult children who are full-time students will be replaced by a transfer mechanism for the recognized parental contribution. An eligible student **may** transfer to his or her **mother** or father, an **amount** relating to any unused portion of his or her basic tax credit for the year.
- The portion of the tax credit for tuition and examination fees that a student **does** not use to reduce his or her tax payable may **be**, as of the 2007 taxation year, transferred to his or her parents or grandparents.
- Starting with the 2007 taxation year, the maximum eligible retirement income used to determine the tax credit for retirement income will be raised from \$1 000 to \$1 500.
- A new refundable tax credit will **be** introduced for **Quebec** residents who **provide** respite services to **informal** caregivers. Starting with the 2007 taxation year, eligible individuals **may** claim a refundable tax credit equal to the total of each **amount** attributed to them in recognition of volunteer respite services provided by them **during** the year to an **informal** caregiver. **Eligible** individuals generally **exclude** the recipient's **siblings**.

- As of the 2007 taxation year, the refundable tax credit for childcare **expenses** is being simplified and enhanced. Childcare **expenses** will no longer be **limited** by the individual's earned income or that of the supporting **person** of the child. In addition, qualified childcare **expenses** will no longer have to be **split**, for **purposes** of calculating the tax credit, between the individual and his or her eligible spouse for the year. The **annual** limit on recognized childcare **expenses** and the applicable rates will remain unchanged.
- The refundable tax credit for the treatment of **infertility** will be raised from 30% to 50% of the cost of a third or any additional attempt at in vitro fertilization. As of the day following the date on which the **Quebec** policy on in vitro fertilization **comes** into effect.

B) Measures concerning businesses

- The capital tax credit rate applicable to the acquisition of manufacturing and processing equipment (**usually class 43** assets) will be raised from 5% to 10% and that an eligible investment will make after February 20, 2007 and before January 1, 2013.
- Extension of the higher 15% capital tax credit for certain investments in the **forest** sector will be eligible for the higher capital tax credit rate of 15% will be extended by three years.
- The corporate tax rate applicable to passive income (Generally – rent income, **interest** income and capital gain). **Will** be reduced to the **tax** rate applicable to active income that **is** ineligible for the **small** business deduction. Therefore, the rate will be 9.9% as of February 21, 2007; 11.4% as of January 1, 2008 and 11.9% as of January 1, 2009.
- Reduction in the tax holiday granted to manufacturing SMEs in remote resource **regions** – The tax legislation will be amended to reduce the tax holiday from 75% to 50% as of January 1, 2008, and to 25% as of January 1, 2009, granted to manufacturing **small** and **medium-sized** enterprises (**SMEs**) in **remote** regions. Where the taxation year of the eligible corporation **does not coincide** with a calendar year covered by the change in rate, this change will apply proportionally to the number of days of **such** taxation year included in the calendar year covered by the change in rate.
- The tax legislation will be amended **so** that a **person** or a partnership that **carries** on a business in Canada and **performs** R&D work in **Quebec**, or has **such** work **done** in **Quebec** on their behalf, may be eligible for the refundable tax credits for R&D salary, university **R&D**, pre-competitive R&D and R&D concerning **private** partnerships. This change will apply to R&D expenditures incurred by a **person** or a partnership in relation to a business it **carries** on in Canada and whose fiscal year began after April 21, 2005. A further amendment will be made to the tax legislation **so** that R&D expenditures incurred in a fiscal year that began after April 21, 2005, by a **person** or a partnership whose **eligibility** for the refundable tax credit was affected by the amendment announced in the April 21, 2005, budget speech **can** be included in a claim for a refundable tax credit, by the **later** of August 31, 2008, and the last day of the **twelve-month** period following the filing deadline for the taxation year in which **such** expenditures were incurred.

The **amount** of the deduction in the calculation of the paid-up capital of a **farming** corporation or a corporation that **carries** on a fishing business will be raised from \$400 000 to \$5 million.

- Technical amendments will be made to the tax credits for **Quebec** film and television production, film production services, film dubbing, the production of shows, sound recording production and book publishing to **ensure** that **these** tax credits achieve their objectives. **These** changes will generally apply with regard to applications for the refundable tax credits filed after February 20, 2007.

- With regard to the SME Growth Stock Plan (Accro PME), the existing 21-day period during which an investor may be in a coverage deficiency position in an Accro PME account will be changed.
- As of January 1, 2007, the tax legislation will be amended so that the 21-day period following a real withdrawal for the purposes of the coverage deficiency amount (CDA) is replaced by a period beginning on the day after the day of a real withdrawal during a given month and ending on the last day of the second month following such given month (period of a maximum of three months).
- Adjustments will be made to transitional rules regarding the refundable tax credit for the construction, renovation or conversion of strategic buildings in the Mirabel Zone for corporations still entitled to these measures. More specifically, changes will be made to the terms and conditions of the annual certificate issued by Investissement Québec in relation to the occupation of strategic buildings. These changes will apply to eligibility certificates issued after February 20, 2007.

Other measures

- For a new hybrid vehicle that has been purchased or for which a long-term lease has been entered into after February 20, 2007 and before January 1, 2009, the refund of Quebec sales tax (QST) paid on the purchase will be raised from \$1 000 to a maximum amount of \$2 000.