

March 13, 2008

tax & business Alert

BUDGET HIGHLIGHTS:

- Immediate elimination of the tax on capital for the manufacturing sector
- Creation of a tax-free savings account.
- New 5% tax credit for investment in manufacturing equipment
- Improvements to R&D program

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QUEBEC BUDGET 2008-2009



The Finance Minister, Monique Jérôme-Forget, presented the second Liberal minority Québec government budget at the National Assembly this afternoon at 4:00 p.m. The following is a summary of the highlights contained in the budget.

In conformity with the government's budgetary stance, a balanced budget will be achieved again in 2008-2009. Furthermore, the government will deposit an additional \$200 million in the Generations Fund from the sums allocated to the budgetary reserve in 2007-2008.

Individuals

CREATION OF A TAX-FREE SAVINGS ACCOUNT

The 2008-2009 Budget provides for the creation, as of the 2009 taxation year, of a tax-free savings account (TFSA), which will offer greater flexibility compared with current tax plans encouraging saving.

The basic terms and conditions of the Québec TFSA parallel those of the Federal plan announced in February. (For details please visit our website to see a copy of the Federal Budget Newsletter)

REDUCTION IN THE GROSS-UP RATE APPLICABLE TO ELIGIBLE DIVIDENDS

On February 26, 2008, the federal Minister of Finance announced

Corporations

IMMEDIATE ELIMINATION OF THE TAX ON CAPITAL FOR THE MANUFACTURING SECTOR

The 2007-2008 Budget Speech announced a plan to eliminate the tax on capital by December 31, 2010 for all businesses in Québec. Until that date, the capital tax credit of 15% was intended to enable manufacturing businesses that invest in manufacturing and processing equipment to reduce or eliminate their tax on capital.

However, many businesses must still pay the tax on capital, since their investments are too low for them to take full advantage of the capital tax credit.

To enable these businesses to modern-

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20 000 NEW SPACES IN THE PUBLIC DAY-CARE NETWORK

The early childhood educational daycare services program set up in 1997 has provided low-cost daycare spaces for parents of children under age 5.

The 2008-2009 Budget provides for the creation of 18,000 reduced-contribution daycare spaces, as follows:

- 4,500 spaces in 2008-2009;
- 4,500 spaces in 2009-2010;
- 4,500 spaces in 2010-2011;
- 4,500 spaces in 2011-2012

changes to the tax treatment of dividends paid by large corporations.

To harmonize Québec's tax system with the federal system, the 2008-2009 Budget provides that the gross-up rate applicable to eligible dividends will be lowered from 45% to 44% on January 1, 2010, to 41% on January 1, 2011 and to 38% on January 1, 2012.

REFUNDABLE TAX CREDIT FOR CHILD CARE EXPENSES

Currently, the tax assistance for parents whose children are placed in private regular rate daycare services is more generous for families with income below \$50,000. Above that level of income, daycare services at \$7 per day are more advantageous.

For instance, taking both Québec and federal taxation into account, a couple with a child under age 5 and with an income of \$50,000 will pay:

- \$2.68 per day in an early childhood education centre;
- — \$3.02 per day in a private daycare centre charging \$25 per day.

By way of comparison, the same family with an income of \$80,000 will pay:

- \$2.73 per day for reduced-contribution daycare compared with \$9.28 for a space in a private regular rate daycare service.

The 2008-2009 Budget includes an improvement to the refundable tax credit for child care expenses up to a family income of \$100,550 so that parents' choice between reduced-contribution daycare services and private daycare services is more neutral.

The rate of the tax credit for child care expenses will rise to 60% of eligible child care expenses for incomes ranging from \$46,755 to \$82,100. It will then decline to reach the minimum rate of 26% at 100,550 rather than \$85,535.

Accordingly, up to a family income of \$80,000, there will be hardly any difference between the daily net cost of the two types of daycare services. This improvement will apply as of 2009. It will benefit 150,000 families and provide them with tax relief of \$20 million per year.

INCREASE IN THE AMOUNT OF THE TAX CREDIT FOR RETIREMENT INCOME FROM \$1,500 TO \$2,000

Québec's tax system allows Québec taxpayers a refundable tax credit for retirement income corresponding to 20% of retirement income. However, retirement income cannot exceed \$1,500.

The 2008-2009 Budget announces that the maximum amount of retirement income eligible for the tax credit will rise from \$1,500 to \$1,750 as of taxation year 2009, and to \$2,000 as of taxation year 2010.

The retirement income eligible for the tax credit includes:

- life annuities paid under a pension plan;
- pension payments from a registered retirement savings plan.

The amount of eligible retirement income is reduced according to family income.

INDEXING OF AMOUNTS GIVING RISE TO TAX CREDITS WITH RESPECT TO AGE AND FOR RETIREMENT INCOME

Starting in taxation year 2009, the amount giving rise to the tax credit with respect to age (\$2,200 in 2009) will be indexed at the indexing rate of the personal income tax system.

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Starting in taxation year 2011, the maximum amount giving rise to the tax credit for retirement income (\$1,500 in 2008, \$1 750 in 2009 and \$2 000 in 2010) will be indexed at the indexing rate of the personal income tax system.

IMPROVE AND SIMPLIFY THE TAX CREDIT FOR HOME SUPPORT FOR ELDERLY PERSONS

To correct the situation and improve the quality of life of elderly persons, the 2008-2009 Budget includes many changes to this tax credit that grants them \$35 million per year:

- an increase in the tax credit rate from 25% to 30%;
- a major simplification of the calculation of the eligible expense for elderly persons living in a residence for elderly persons.

In addition, the 2008-2009 Budget stipulates a reduction of the tax credit according to family income in excess of \$50 000 to focus the financial assistance on those elderly persons who need it most. These changes will apply as of taxation year 2008.

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Corporations (Continued on from page 1)

ize their equipment and realize a better return on their investments, the government is announcing the immediate elimination of the tax on capital for manufacturing businesses. Accordingly, as of March 14, 2008, businesses for which manufacturing represents 50% or more of their activities will no longer pay tax on capital. Businesses for which manufacturing represents between 20% and 50% of their activities will be granted a partial reduction of their tax on capital.

Currently, 14,500 manufacturing businesses do not pay tax on capital, primarily because of the basic deduction of \$1 million in the calculation of paid-up capital.

In this context, the government is announcing that the capital tax credit will be abolished. Nevertheless, non-manufacturing businesses that will continue to pay the tax on capital until its complete elimination on January 1, 2011 may use the sums accumulated in respect of the capital tax credit, as applicable, to reduce or eliminate their tax on capital payable.

NEW TAX CREDIT OF 5% FOR INVESTMENT IN MANUFACTURING AND PROCESSING EQUIPMENT

As of the day following the day of the 2008-2009 Budget Speech, businesses will benefit from a new temporary investment tax credit of 5% applicable to the cost of new manufacturing and processing equipment acquired before January 1, 2016. In addition, the investment tax credit will be fully refundable for SMEs and most large businesses.

ACCELERATED DEPRECIATION FOR MANUFACTURING AND PROCESSING EQUIPMENT

The 2008-2009 Budget is announcing the extension of the deduction for accelerated depreciation on manufacturing and processing equipment. This measure was announced in the 2007-2008 Budget and was to be eliminated at the end of 2008.

Thus, accelerated depreciation on a straight-line basis at the rate of 50% is extended for manufacturing and

tax & business ALERT has been prepared by LEVI & SINCLAIR, LLP for the general information of our clients, staff and other interested parties.

The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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processing equipment acquired from now until December 31, 2009. For property acquired in 2010 and 2011, depreciation will be calculated according to the usual diminishing-balance method and the rate of depreciation for the year of acquisition will be 50% for property acquired in 2010 and 40% for property acquired in 2011. After 2011, the usual method and rate will apply.

IMPROVEMENTS TO TAX ASSISTANCE FOR R&D

The 2008-2009 Budget contains several new improvements to the tax assistance provided through the Research and Development programs, as follows:

- The Budget proposes to increase the tax assistance granted to small- and medium-sized enterprises (SMEs) that carry out R&D relating to their business. The tax legislation will be amended so that the spending limit for the increased rate of 37.5% will be raised to \$3 million. This change will apply for a fiscal period ending after March 13, 2008. For a fiscal period that includes this day, the new spending limit will be established according to the proportion of the number of days in such fiscal period that are after that day.
- Partnerships with public partners will be eligible for the refundable tax credit for private partnership pre-competitive research. The eligibility criteria for the refundable tax credit for private partnership pre-competitive research will be changed and other technical amendments will be made. Changes will generally apply regarding eligible R&D expenditures incurred or R&D work carried out after March 13, 2008.
- The tax assistance currently allowed to encourage business-university synergy will be improved to allow the amount of this tax assistance to be main-

DETERMINATION OF A CORPORATION'S MANUFACTURING PROPORTION

The proportion of a corporation's manufacturing and processing activities will be determined using the following formula:

$$\text{Proportion of manufacturing and processing activities} = \frac{\text{CMPC} + \text{CMPL}}{\text{CC} + \text{CL}}$$

In this formula:

CMPC = cost of manufacturing and processing capital;

CMPL = cost of manufacturing and processing labour;

tained, despite the involvement of players from the institutional research community in carrying out R&D projects in the course of a university contract or an eligible research contract. The active participation in the form of R&D expenditures by players in the institutional research community will be allowed for the purposes of the refundable tax for university R&D and the refundable tax credit for private partnership pre-competitive research. Other technical changes will be made. These changes will generally apply to R&D expenditures incurred after March 13, 2008.

USE OF A PERSON'S COMPUTER HARDWARE IN THE COURSE OF AN AUDIT, INSPECTION OR INVESTIGATION

Under the terms of the Act respecting the ministère du Revenu (AMR), the auditors and inspectors of Revenu Québec have the power to audit or examine the supporting documents and registers of a person as well as

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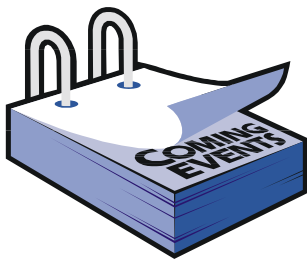
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Readers are reminded that while budget proposals are customarily given the effect of law immediately, the amending legislation, when ultimately adopted by the National Assembly, may be altered to some degree.

any other document or thing that may relate, in particular, to the information contained or that should be contained in the registers or on the supporting documents. They also have the power to copy, print out or photograph them.

However, it is not explicitly stipulated that the auditors and inspectors can use the computer hardware of the person (for instance, the computer, terminal, printer or burner) in the course of exercising such powers. Accordingly, the AMR will be amended to clearly give them the power to use the computer hardware of a person in such circumstances. Amendments will also be made to the AMR to give a similar power to investigators in the course of a search.

These amendments will come into force on the date the bill giving effect to them is assented to.



ALERT DATES

March 15, 2008

First installment due for individuals required to make income tax installments.

March 31, 2008

Deadline for filing income tax returns by an inter-vivos trust and other personal trusts with a December 31, 2008 taxation year-end.

Filing date for T-5013 of partnerships.

April 30, 2008

Deadline for filing personal income tax returns other than those permitted to file by June 15.

June 15, 2008

Second installment due for individuals required to make income tax installments.

Filing date for individuals reporting business income including professional income and their spouses

September 15, 2008

Third installment due for individuals required to make income tax installments.

ABOUT LEVI & SINCLAIR

LEVI & SINCLAIR is a firm of chartered accountants that traces its origin in Montreal to 1950. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with a steadfast commitment to consistently deliver excellence. Our Chartered Accountants and Business Consultants provide advisory services on a broad range of issues to both our individual and corporate clients. The members of our firm possess unique talents, expertise and experience, giving our clients access to a knowledge base of considerable breadth and depth. Together with our support personnel, we share a commitment to developing practical solutions for the business challenges of today, and to devising strategies for tomorrow.

OUR SERVICES

Our firm takes pride in adding value to every client that we serve through our extensive expertise and proactive approach to your financial needs. We match our dedication to adding value with experience and expertise: we have experience in servicing virtually every type of industry and professional practice.

TAXATION

Our office has a strong basis in federal and provincial tax issues. Our tax group has been in existence for 50+ years and is highly qualified and experienced. Our accountants work hard to minimize your taxes, yet make sure that you fulfill your tax requirements ethically while working to add value. We can fill a variety of tax needs, both domestic and international as well as corporate and personal. Our specialties lie in tax reporting and representation, tax planning (business, personal, divorce and litigation), tax structuring of entities and transactions and tax research.

FINANCIAL

LEVI & SINCLAIR can meet all of your basic financial needs with our exemplary Accounting Services Group that can truly add value whether it's your business or your personal finances that we are reviewing. We work with business entities as well as non-profits and foundations. Our accounting services include; auditing and compilation review of financial statements, budgets and forecasts, and government reporting. We won't simply process your financial statements, our mission is to add value. We will go the extra mile to help you forecast or locate opportunities that you may be missing.

BUSINESS CONSULTING

LEVI & SINCLAIR's Business Consulting unit has proven itself as a valuable resource to businesses of all kinds. We can help you plan your future, whether you see it coming or not. We can help you bring seminal business events to life; like mergers and acquisitions, business valuation, leases and contracts, or business development plans, all of which take a huge amount of planning and attention to detail. If there are no big events on your horizon, we can still be of service by helping you to anticipate the unexpected through our forecasting, real estate projections, risk management assessments, or our feasibility studies. We look at your business and all of its many facets, to find both issues and opportunities and bring that valuable insight to you.

LITIGATION SUPPORT AND DISPUTE RESOLUTION SERVICE AREAS

- **Civil and criminal Fraud Investigation**
- **Management and employee fraud and theft**
- **Identification of secret commissions and kickbacks**
- **Sarbanes-Oxley compliance audits**
- **Sarbanes-Oxley 404 audits**
- **Intellectual Property Litigation Support**
- **Training on fraud awareness and prevention**
- **Due Diligence Audits**
- **Business valuation**
- **Fairness opinions**
- **Insurance claim assistance**
- **Retail sales audits**
- **Contract dispute resolution**
- **Professional negligence litigation support**
- **Fraud prevention program design, implementation and evaluation**
- **Bank due diligence audits**
- **Employee background audits**
- **Financial discrepancy analysis**
- **Divorce litigation support**
- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

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