

March 19, 2009

tax & business Alert

BUDGET HIGHLIGHTS:

- Corporate Tax reduction
- Creation of a new Stock Savings Plan
- Increased refundable tax credits for child care
- 100% accelerated depreciation for computer hardware

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QUEBEC BUDGET 2009-2010



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

Individuals

REFUNDABLE TAX CREDIT FOR CHILD CARE EXPENSES

The refundable tax credit for child care expenses is designed to offset part of the child care expenses incurred by families in order to work, study or actively seek employment.

The tax credit rate varies from 75 % to 26 %, based on family income. The amount of eligible child care expenses is subject to certain limits:

- \$10 000 for a child with a severe and prolonged impairment in physical or mental functions, regardless of the child's age;
- \$7 000 for a child under 7 years of age;
- \$4 000 for any other eligible child.

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Corporations

CORPORATE TAX REDUCTION

The government is announcing that the amount of income eligible for the reduced tax rate for small businesses will be raised from \$400 000 to 500 000 as of the day following the day of the Budget Speech.

EXTENSION OF ACCELERATED DEPRECIATION FOR MANUFACTURING AND PROCESSING EQUIPMENT

The government is announcing that manufacturing and processing equipment acquired before 2012 will be covered by accelerated depreciation using the straight-line method and a 50% rate.

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Quebec Sales Tax to increase from 7.5% to 8.5% as of January 1, 2011

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The 2009-2010 Budget provides for three enhancements of the refundable tax credit for child care expenses:

- A change to the rate table to further reduce the net-cost difference between private and reduced-contribution childcare services. Through this enhancement, which will take effect as of 2009, the cost of both types of childcare services—private and \$7-a-day public services—will be comparable, up to a family income of approximately \$125 000.
- an increase from \$7 000 to \$9 000 in the limit on child care expenses for a child under 7 years of age;
- improvement of the tax treatment of child care expenses paid during parental leave.

DEDUCTION FOR LOSS IN VALUE OF RRSP/RRIF INVESTMENTS FOLLOWING A DEATH

Presently, there is no fiscal provision recognizing a loss in the value of RRSP or RRIF investments that occurs between the date of the person's death and the date on which the assets are distributed to the beneficiaries of the plan.

To harmonize the treatment of RRSPs and RRIFs with federal tax measures and simplify administration of the plans for individuals, the 2009-2010 Budget provides that the losses sustained on an RRSP or a RRIF, following a decrease in the value of the investments between the date of a person's death and the time when the assets are distributed, may be deducted in the calculation of the deceased's income for the year of death. The measure will apply to final distributions of assets made after 2008.

THE STOCK SAVINGS PLAN II

The government is announcing major improvements to the SME Growth Stock Plan, which becomes the stock savings plan II (SSP II).

DEDUCTION LIMITS AND RATES APPLICABLE TO THE USE OF AN AUTOMOBILE

In calculating the taxable benefits related to the use of an automobile or the automobile expenses that can be deducted for income tax purposes, you must take into account certain limits and prescribed rates. The limits and rates for 2009 are listed below:

- ✓ For purposes of capital cost allowance (CCA), the ceiling on the capital cost of passenger vehicles remains at \$30,000 (plus GST and QST) for vehicles purchased after 2008.
- ✓ The limit on deductible leasing costs remains at \$800 per month (plus GST and QST) for leases entered into after 2008. Under a separate restriction, deductible leasing costs are prorated where the value of the passenger vehicle exceeds the capital cost ceiling.
- ✓ The limit on the deduction of tax-exempt allowances paid by employers to employees using their personal vehicle for business purposes remains at 52 cents per kilometre for the first 5,000 kilometres and 46 cents for each additional kilometre.
- ✓ The maximum allowable interest deduction for amounts borrowed to purchase a passenger vehicle remains at \$300 per month for loans related to vehicles acquired after 2008.

The prescribed rate used to determine the taxable benefit relating to the portion of the operating expenses related to an employee's personal use of an automobile provided by the employer remains at 24 cents per kilometre. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate remains at 21 cents per kilometre.

The main parameters of the SSP II are:

- ▶ the maximum size of eligible corporations is doubled, rising from \$100 to \$200 million in assets;
- ▶ the deduction rate for individuals is raised to 150% until December 31, 2010 and 100% thereafter;
- ▶ the minimum holding period is reduced to two years;
- ▶ the procedure regarding the eligibility of shares for coverage purposes will be simplified;
- ▶ the plan will apply until December 31, 2014.
- ▶ eligible securities include newly issued common shares with voting rights and securities issued by eligible investment funds.

2009 QPP Limits and Rates

The limits and rates related to the Québec Pension Plan (QPP) for 2009 are as follows:

- The maximum pensionable earnings have been increased from \$44,900 to \$46,300.
- The basic exemption is unchanged at \$3,500.
- The maximum contributory earnings have been increased from \$41,400 to \$42,800.
- The contribution rate is unchanged at 4.95% for both employers and employees.
- The maximum employee contribution has been increased from \$2,049.30 to \$2,118.60.

year rule, that limits the depreciation deduction in the year of acquisition to half the amount normally available, will not apply for these goods.

This measure will enable businesses to depreciate all their acquisitions of computers and associated software in less than a year, compared to more than four under the usual rules.

FIVE-YEAR ROYALTY HOLIDAY FOR GAS DEVELOPMENT

Currently, natural gas development corporations must pay a royalty of 10.0% or 12.5% of the value at the well based on average daily production.

The government is announcing the implementation of a five-year royalty holiday of up to \$800 000 per well for wells put into production after the day of the budget and before January 1, 2011.

TAX HOLIDAY ENCOURAGING THE COMMERCIALIZATION OF INTELLECTUAL PROPERTY

To increase the number of companies spun off from research carried out in the public domain in Québec and thus further encourage innovation, the government is implementing a ten-year corporate income tax holiday.

Accordingly, an eligible corporation, formed between the day following this budget and April 1, 2014, will be exempt from corporate income tax on the sale of goods stemming from intellectual property.

Eligible commercialization activities include in particular the manufacturing of products stemming from intellectual property and the marketing of products developed. The intellectual property must be developed by Québec universities or eligible public re-

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This extends the accelerated depreciation measure announced initially in the 2007-2008 Budget that was to have expired at the end of 2009.

This extension will replace the transition rules announced in the 2008-2009 Budget for assets acquired in 2010 and 2011.

100% ACCELERATED DEPRECIATION FOR COMPUTER HARDWARE

The government is announcing a temporary accelerated depreciation measure for computer hardware.

The depreciation rate will be 100% for goods acquired before February 1, 2011. In addition, the half-

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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FUNDING OF PUBLIC SERVICES

The government is announcing three initiatives

- ▶ First, all user fees not subject to an annual indexation mechanism, with the exception of rates for reduced-contribution childcare services, will be indexed annually at the same rate applicable to the personal income tax system.
- ▶ Second, the government is tabling a policy for the funding of public services to ensure their sustainability while meeting the fairness and accessibility criteria that take into account the precarious situation of low-income households in addition to promoting the transparency and accountability of the fee-setting process.
- ▶ Third, the government is announcing a broader mandate for the Fonds de conservation et d'amélioration du réseau routier, whose objective will be to ensure the funding of road and public transit infrastructure out of dedicated revenues, in compliance with the beneficiary-payer principle.

Some examples of non-indexed user fees which will now be indexed are driver's licences, basic cost of ambulance transportation and certificates issued for a birth, marriage, civil union, death or name change.

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New refundable tax credit for a new green vehicle

To encourage the use of highly fuel-efficient vehicles, the 2009-2010 Budget stipulates the introduction of a refundable tax credit for the acquisition or lease of a new green vehicle as of taxation year 2009.

The tax credit will be granted to an individual or a corporation that purchases or leases on a long-term basis a new green vehicle. It will be paid at the time of the tax return filed for the year of purchase or of the beginning of the lease of the vehicle.

The objective of the tax credit is to encourage use of vehicles that are currently compliant with the most stringent California standard on greenhouse gas emissions for vehicles, i.e. the equivalent of 5.27 litres of gasoline/100 kilometres.

The amount of the tax credit will depend on the greenhouse gas emissions the vehicle produces. The better a vehicle's environmental performance, the greater the tax credit, i.e.:

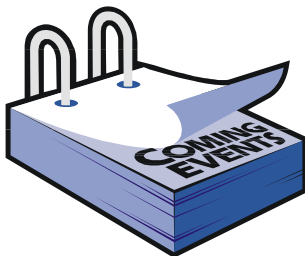
- \$2 000 for vehicles with consumption of 3.00 to 5.27 litres of gasoline/100 kilometres, which corresponds to compliance with the 2016 California standard or better;
- \$3 000 for vehicles with consumption of 0.01 to 2.99 litres of gasoline/100 kilometres, which is below that of the preceding standard and implies use of a technology requiring less fuel;
- \$4 000 for low-speed restricted-use vehicles with consumption of 0.00 litres of gasoline/100 kilometres;
- \$8 000 for other vehicles that consume 0.00 litres of gasoline/100 kilometres. As with the preceding category, this seeks to recognize the zero fuel consumption of exclusively electric vehicles or vehicles using an equivalent technology.

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.

SUSPENSION OF THE EFFECTS OF THE BALANCED BUDGET ACT

The government will table a bill to amend the Balanced Budget Act so as to be able to present a budget deficit in 2009-2010 and 2010-2011 that it will not have to offset through surpluses in subsequent years.

Also, the Balanced Budget Act will be amended to enable the government to gradually pay off its budget deficit once economic recovery is under way. To that end, the bill will provide for provisions authorizing decreasing budget deficits that will not have to be subsequently offset.



ALERT DATES

March 31, 2009

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, 2009

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

June 15, 2009

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, 2009

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.

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- **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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