

March 30, 2010

# tax & business Alert

## BUDGET HIGHLIGHTS:

- Health contribution as of July 1, 2010
- Fuel tax hike of 1¢ per litre on April 1 of each year from 2010 to 2013
- Increased Quebec Sales Tax of 1% on January 1, 2012
- New solidarity tax credit

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## QUEBEC BUDGET 2010-2011



The Finance Minister, Raymond Bachand, presented the Québec government budget at the National Assembly this afternoon at 4:00 p.m. and identified the government's plan to achieve a balanced budget by 2013-2014. The following is a summary of the highlights contained in the budget.

### Individuals

#### INTRODUCTION OF A HEALTH CONTRIBUTION AS OF JULY 1, 2010

Only adults will have to pay the contribution. However, adults whose family income is equal to or lower than the exemption threshold applicable to them will be exempt from the contribution.

The amount of the health contribution will be \$50 in 2010 (however, since it will apply only as of July 2010, this is equivalent to \$25 for 2010), \$100 in 2011 and \$200 as of 2012.

In the case of a couple, each spouse will be required to pay the health contribution. Accordingly, a couple may be required to pay, in respect of the new health contribution, a total of \$50 in

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### Corporations

#### REVISION OF THE MINING DUTIES REGIME

The primary objective of a mining duties regime is to enable the government to collect fair compensation for the use of a non-renewable resource that belongs to the public domain. To achieve this primary objective, several amendments will be made to the Mining Duties Act, including:

- The existing 12% tax rate will be raised gradually to 16% by January 1, 2012.
- The rate of the depreciation allowance will be reduced to better reflect the useful life of assets.
- The additional allowance for a northern mine will be replaced with an additional allowance for a mine located in Northern Québec, in particular to offer an allowance with a more extensive territorial reach.

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**Quebec Sales Tax to increase from 7.5% to 8.5% as of January 1, 2011 and to 9.5% as of January 1, 2012**

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2010, \$200 in 2011 and \$400 as of 2012. All individuals (other than trusts) who, at the end of a year, are resident in Québec and 18 years of age will be required to pay the health contribution for that year.

Where an individual dies or ceases to be resident in Canada during a given year, the last day of the year will be deemed to be the day on which the individual died or the last day he or she was resident in Canada, as the case may be. However, individuals who cease to be resident in Canada or who die before July 1, 2010 will be exempt from paying the health contribution for 2010.

The health contribution will be payable no later than April 30 of the year following a given year for which it is payable, unless the individual dies after October 31 of the given year and before May 1 of the following year, in which case the health contribution will be payable no later than the day that falls six months after the individual's death.

As is presently the case in regard to the premium payable under the public prescription drug insurance plan, where an individual is required to make instalment payments on his or her income tax payable for a year after 2010, the individual will also be required to make instalment payments on his or her health contribution payable for the year.

#### NEW SOLIDARITY TAX CREDIT

To better meet the needs of low and middle-income households, the tax credit for the QST, the property tax refund and the tax credit for individuals living in a northern village will be grouped into a single refundable tax credit—the solidarity tax credit.

Essentially, the new tax credit will provide more assistance to households to reduce QST and housing-related costs, while acknowledging that inhabitants of northern villages must bear a higher cost of living than their counterparts elsewhere.

So that less time elapses between the receipt of the tax assistance granted under tax credit and the needs it is

#### 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 2010 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 2009.
- ✓ The maximum allowable interest deduction for amounts borrowed to purchase an automobile will remain at \$300 per month for loans related to vehicles acquired after 2009.
- ✓ The maximum allowable interest deduction for amounts borrowed to purchase an automobile will remain at \$300 per month for loans related to vehicles acquired after 2009.
- ✓ The limit on deductible leasing costs remains at \$800 per month (plus GST and QST) for leases entered into after 2009. 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 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.

intended to meet, the tax credit will be paid monthly. The first payment of the solidarity tax credit will be made in July 2011.

In addition to being available to young taxpayers as soon as they turn 18, the solidarity tax credit will be better tailored to the situation of households, because it will take into account the changes, such as births, unions and separations that occur over the course of a year.

**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.**

## 2010 QPP Limits and Rates

The limits and rates related to the Québec Pension Plan (QPP) for 2010 are as follows:

- The maximum pensionable earnings have been increased from \$46,300 to \$47,200.
- The basic exemption is unchanged at \$3,500.
- The contribution rate is unchanged at 4.95% for both employers and employees.
- The maximum employee and employer contributions have been increased from \$2,118.60 to \$2,163.15.
- The contribution rate for self-employed persons is 9.9%.
- The maximum contribution for a self-employed person has been increased from \$4,237.20 to \$4,326.30.

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### CHANGES AFFECTING THE FILM INDUSTRY

The budget proposes several changes to the refundable tax credit system available to the film industry including:

- Adjustments to the refundable tax credits for the production of multimedia titles to allow for convergence with digital animation films;
- Improvements to the refundable tax credit for film dubbing;
- New excluded amounts of assistance for the purposes of the refundable tax credit for Québec film and television production;
- Tax relief for non-residents occupying key positions in a foreign production filmed in Québec.

### OTHER CHANGES TO R&D TAX CREDITS

In addition, the budget proposes several other changes to the refundable tax credit for R&D, including:

- Changes to the refundable tax credit for R&D salaries relating to clinical trials;
- Extension of the scope of the easing regarding the twelve-month period for filing documents applicable to the refundable tax credits for R&D;
- Adjustment to the refundable tax credit for the development of e-business for activities transfer and business start-up situations;
- Extension of the refundable tax credit for the construction and major repair of public access roads and bridges in forest areas.

### INCREASED CAPITAL COST ALLOWANCE RATE APPLICABLE TO TRUCKS AND TRACTORS

Québec's tax regulations will be amended so that a capital cost allowance rate of 60%, according to the diminishing-balance method, is applicable to property consisting of a truck or a tractor designed for hauling freight, and that is primarily so used by the taxpayer, or a person with whom he does not deal at arm's length, in a business that includes hauling freight, where the gross vehicle weight rating exceeds 11 788 kilograms.

To give rise to this 60% capital cost allowance rate, such a truck or tractor must be new at the time of its acquisition by the taxpayer and be acquired after the day of the Budget Speech.

This 60% capital cost allowance rate will also apply to additions and modifications made to such a truck or tractor to enable such truck or tractor to run on liquefied natural gas (LNG) and the half-year rule will apply to the property covered by this increase in the capital cost allowance rate. Under this rule, the capital cost allowance deduction that can be claimed

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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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in the year in which the property became ready to be put into service is equal to half the amount that normally would be deductible.

Furthermore, Québec's tax legislation and regulations will be amended to enable a taxpayer to claim an additional deduction of 85% of the amount deducted in calculating its income for the year on account of capital cost allowance in respect of a truck or tractor designed for hauling freight and covered by the 60% capital cost allowance where such truck or tractor is fuelled by LNG.

The budget proposes an investment of \$200 million for the creation of an express rail link between the airport and downtown Montréal.

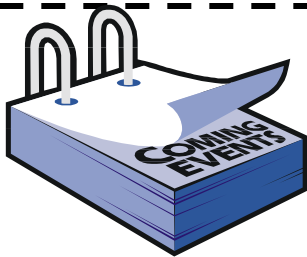
#### GRADUAL RISE IN THE FUEL TAX

The regular rates of the fuel tax of 15.2 cents per litre of gasoline and 16.2 cents per litre of diesel fuel will be raised by 1 cent per litre per year until fiscal year 2013-2014, More specifically, these rises will apply

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### ALERT DATES

March 31, 2010

Deadline for filing income tax returns by an inter-vivos trust and other personal trusts with a December 31, 2009 taxation year-end.

Filing date for T-5013 of partnerships.

April 30, 2010

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

June 15, 2010

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, 2010

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

## **ABOUT LEVI & SINCLAIR**

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- **Fraud prevention program design, implementation and evaluation**
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- **Employee background audits**
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- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

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