

March 17, 2011

tax & business Alert

BUDGET HIGHLIGHTS:

- University tuition to rise annually.
- New rebates for green cars
- Increased Quebec Sales Tax of 1% on January 1, 2012
- Increased QPP rates
- Incentives to pensioners to delay receiving QPP
- Incentives for experienced workers over 65

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QUEBEC BUDGET 2011-2012



The Finance Minister, Raymond Bachand, presented the Québec government budget at the National Assembly this afternoon at 4:00 p.m. and reaffirmed the government's plan to achieve a balanced budget by 2013-2014. The budget contains very few tax measures, particularly with regards to corporate tax. Essentially, there are no changes to the tax rates other than the increase of the QST rate announced in last year's budget, and a rise in the QPP contribution rate. The following is a summary of the highlights contained in the budget.

Individuals

UNIVERSITY TUITION INCREASE

Beginning in the fall of 2012 and in each of the following four years, annual tuition fees will be raised by \$325.

TAX CREDIT FOR EXPERIENCED WORKERS 65

The 2011-2012 Budget provides for the gradual implementation of a tax credit for experienced workers as of January 1, 2012.

The new tax credit is intended to offset the Québec income tax payable on the \$10 000 of work income exceeding the first \$5 000, for people 65 or over.

The income tax payable will be offset by the tax credit at the lowest rate of

Other Measures

CAPITAL ANGES QUÉBEC FUND

The budget proposes the creation of the Capital Angés Québec fund through Investissement Québec.

The new fund will enable investments in seeding and startup businesses, primarily in the information technology and industrial technology sectors.

RELÈVE QUÉBEC FUND

To assist with the succession of Québec businesses, the budget proposes to create the Relève Québec fund, which will offer loans with attractive conditions to Québec entrepreneurs who succeed business owners in a business transfer, in order to finance part of their initial investment.

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Look for our Federal Budget Newsletter on March 22, 2011

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 2011 are listed below:

- The ceiling on the capital cost of passenger vehicles for capital cost allowance (CCA) purposes will remain at \$30,000 (plus applicable federal and provincial sales taxes) for purchases after 2010. This ceiling restricts the cost of a vehicle on which CCA may be claimed for business purposes.
- 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 2010.
- The limit on deductible leasing costs will remain at \$800 per month (plus applicable federal and provincial sales taxes) for leases entered into after 2010. This limit is one of two restrictions on the deduction of automobile lease payments. A separate restriction prorates deductible lease costs where the value of the vehicle exceeds the capital cost ceiling.
- 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 limit on the deduction of tax-exempt allowances paid by employers to employees using their personal vehicle for business purposes for 2011 will remain at 52 cents per kilometre for the first 5,000 kilometres driven and 46 cents for each additional kilometre. For Yukon, the Northwest Territories and Nunavut, the tax-exempt allowance will remain at 56 cents for the first 5,000 kilometres driven and 50 cents for each additional kilometre.
- The general prescribed rate used to determine the taxable benefit relating to the personal portion of automobile operating expenses paid by employers for 2011 will remain at 24 cents per kilometre. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate will remain at 21 cents per kilometre. The additional benefit of having an employer-provided vehicle available for personal use (i.e., the automobile standby charge) is calculated separately and is also included in the employee's income.

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the tax table, that is 16%. The average savings attributable to the tax credit, per total income of an experienced worker once the plan is fully implemented will be as follows:

Total income of an experienced worker	Average gain (\$/worker)
Under \$25,000	373
\$25,000—\$50,000	1,021
\$50,000-\$75,000	1,248
\$75,000+\$100,000	1,354
Over \$100,000	1,419

Eligibility for the tax credit is for people 65 or over with at least \$5 000 of eligible work income. If a worker turns 65 in the year, only the work income earned as of the time he or she reaches age 65 will give entitlement to the tax credit.

The tax credit covers employees and self-employed workers. The main work income taken into account is employment and business income.

In general, the definition of eligible work income currently used to calculate the deduction for workers will be applied to the new tax credit

The new tax credit will be implemented gradually as of 2012.

After the first \$5 000, the tax credit will enable the

(Continued on page 3)

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.

2011 QPP Limits and Rates

The limits and rates related to the Québec Pension Plan (QPP) for 2011 are as follows:

- The maximum pensionable earnings have been increased from \$47,200 to \$48,300.
- The basic exemption is \$3,500.
- The maximum contributory earnings have been increased from \$43,700 to \$44,800.
- The contribution rate is 4.95% for both employers and employees.
- The maximum employee contribution has been increased from \$2,163.15 to \$2,217.60.
- The maximum employer contribution has been increased from \$2,163.15 per employee to \$2,217.60 per employee.
- The contribution rate for self-employed persons is 9.9%.
- The maximum contribution for a self-employed person has been increased from \$4,326.30 to \$4,435.20. 2011 Employment Insurance premiums will be limited to five cents per \$100 of insurable earnings for 2011 and 10 cents per \$100 for subsequent years.

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total elimination of Québec income tax on additional work income of:

- \$3 000 in 2012;
- \$4 000 in 2013;
- \$5 000 in 2014;
- \$8 000 in 2015;
- \$10 000 as of 2016.

QPP CHANGES

As of January 1, 2012, the Québec Pension Plan contribution rate will be raised over six years from 9.9% to 10.80% in increments of 0.15 percentage point per year.

In addition, the Minister announced the implementation of an automatic contribution rate adjustment mechanism that will apply as of 2018 which the government may suspend if it deems it appropriate to do so, and propose alternative measures.

Currently, workers can choose to receive benefits as of 60 years of age or, alternatively, postpone that time to age 70. These choices result, respectively, in reductions and increases in the monthly pension.

As an incentive to encourage experienced workers to remain in the labour market, the monthly increase in pensions applied for after age 65 will rise from 0.5% to 0.7% as of January 1, 2013. In addition, as of January 1, 2014, the monthly reduction in Québec Pension Plan benefits applied for before age 65 will gradually rise from 0.5% to 0.6% over three years.

POOLED REGISTERED PENSION PLANS ("PRPPs")

The budget proposes that the government will make legislative and regulatory amendments to enable the development of new voluntary retirement savings plans.

These plans, will be managed collectively by financial institutions, such as insurance companies. They will be accessible to everyone and transferable. Every employer will be required to offer such a plan without, however, being obliged to contribute to it. Employees will be registered automatically, but will be allowed to opt out on a voluntary basis.

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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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ACCELERATING THE ARRIVAL OF ELECTRIC VEHICLES

The government currently offers an incentive to purchase electric vehicles — the tax credit for the acquisition or leasing of a new green vehicle. In an effort to provide assistance more rapidly, the budget proposes the replacement of the refundable tax credit for green vehicles by a purchase or leasing rebate program.

Under the program, the acquisition of a plug-in electric or hybrid electric vehicle will give entitlement to a rebate of up to \$8,000 as of 2012.

The vehicles giving entitlement to the new purchase rebate program will be vehicles whose engine type includes a form of electrification, namely:

- ▶ all-electric vehicles (other than low-speed vehicles);
- ▶ plug-in hybrid electric vehicles;
- ▶ low-speed electric vehicles;
- ▶ non-plug-in hybrid vehicles with a consumption rating below 5.27 litres/100 kilometres—the vehicles currently covered by the tax credit.

So that users can take advantage of faster charging, the 2011-2012 Budget provides that consumers who acquire or lease plug-in electric or hybrid electric vehicles entitling them to the purchase rebate will also be able to receive a rebate of 50% of the total cost of the purchase and installation of a home charging station to a maximum of \$1,000 in 2012. This amount will be lowered gradually, to \$800 in 2014 and \$600 in 2015.

To enable Quebecers to acquire rechargeable hybrid electric vehicles or entirely electric vehicles as soon as they arrive on the market, the government is announcing that it will improve the tax credit for the acquisition or leasing of a new green vehicle regarding certain vehicles acquired after the day of the 2011-2012 Budget Speech and before January 1, 2012.

Accordingly, taxpayers who purchase a vehicle whose gasoline consumption is between 0.01 litre/100 kilometres and 2.99 litres/100 kilometres will henceforth receive a tax credit of \$7,769 rather than \$3,000. Taxpayers will accordingly be able to receive enhanced tax assistance until December 31, 2011.

Since the purchase rebate program will replace the existing tax credit for vehicles purchased or leased as of January 1, 2012, the tax credit will be eliminated at that time. Accordingly, only vehicles purchased or leased before January 1, 2012 will give rise to the tax credit.

STEPPING UP THE FIGHT AGAINST TAX EVASION

Following upon previous announcements, the Minister stated in his budget speech that the annual tax recovery targets relating to tax evasion will be raised by \$150 million this year and \$200 million subsequently, bringing the objective for 2013-2014 to \$1.4 billion.

In addition, the Minister announced the allocation of \$5 million to fund the work of investigators assigned to the fight against contraband tobacco and unreported work.

Since June 1, 2010, government departments and public bodies have required that suppliers bidding on a public contract worth \$25,000 or more provide a certificate issued by the Ministère du Revenu. The budget proposes that the legislative provisions governing the awarding of public contracts worth more than \$25,000 will be broadened to include bidders from across the public sector, including government corporations and municipalities.

In addition, subcontractors of entrepreneurs having obtained public construction contracts covered by the legislative provisions will also be required to provide a tax certificate.

To deal more effectively with tax evasion and unreported work in the home renovation sector, the government will explore new methods of intervention in cooperation with the municipalities.

Beginning this spring, ACCES construction will initiate a pilot project to increase operations on residential worksites, particularly in Montréal and Québec City.

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Quebec Sales Tax to increase from 8.5% to 9.5% as of January 1, 2012

OTHER MEASURES

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Inspectors from Revenu Québec, the Régie du bâtiment du Québec, the Commission de la santé et de la sécurité du travail and the municipalities will carry out joint operations which, if successful, could be extended to other municipalities.

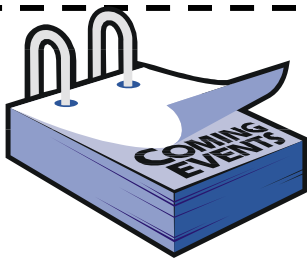
The budget proposes the following additional measures:

- as of 2012-2013, the government will gradually create 15,000 new reduced-contribution daycare spaces.
- Effective January 1, 2012, the government is fixing at \$1 000 the duties payable annually for the issuance of a site operator's licence for video lottery machines.

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ALERT DATES

March 31, 2011

Deadline for filing income tax returns by an inter-vivos trust and other personal trusts with a December 31, 2010 taxation year-end.

Filing date for T-5013 of partnerships.

April 30, 2011

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

June 15, 2011

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, 2011

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.

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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.

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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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- **Bank due diligence audits**
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- **Financial discrepancy analysis**
- **Divorce litigation support**
- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

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