

May 24, 2007

# tax & business Alert

## BUDGET HIGHLIGHTS:

- Widespread personal income tax cuts.
- Dependent tuition fees transferable to the parents.
- Elimination of corporate tax on capital by 2011.
- Increased capital cost allowance for the manufacturing sector.

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## QUEBEC BUDGET 2007-2008



The Finance Minister, Monique Jérôme-Forget, presented the second Liberal 2007-2008 budget and the first minority Québec government budget in over 100 years 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 2007-2008. Furthermore, the government will deposit an additional \$200 million in the Generations Fund from the sums allocated to the budgetary reserve in 2006-2007.

### Individuals

#### GENERAL INCOME TAX REDUCTION

This tax cut, in effect as of January 1, 2008, results from two changes:

- the taxable income thresholds of the tax table will be raised by 25%, to:
  - \* \$0 to \$37 500 for the first rate of 16%;
  - \* \$37 500 to \$75 000 for the second rate of 20%;
  - \* \$75 000 and over for the third rate of 24%.
- the basic amount will be increased by \$275, to \$10 215.

This tax cut will be in addition to the 2% indexation forecast for 2008.

### Corporations

#### PHASING OUT OF THE TAX ON CAPITAL FOR ALL BUSINESSES BY JANUARY 1, 2011

Québec had already initiated a plan to reduce the tax on capital by more than 50% by 2009.

The new plan announced in the 2007-2008 Budget provides for its complete elimination for all businesses by January 1, 2011.

The general rate of the tax on capital will be reduced from 0.49% to 0.36% on January 1, 2008, and then to 0.24% on January 1, 2009, and to 0.12% on January 1, 2010.

The capital tax will be abolished on January 1, 2011.

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**RISE FROM \$500 000 TO \$750 000 IN  
THE LIFETIME CAPITAL GAINS EXEMPTION**

Currently, taxpayers who sell qualified small business shares, or farm or fishing property, may claim a lifetime capital gains exemption of \$500 000. With the 2007-2008 Budget, the government announces that the exemption will be raised from \$500 000 to \$750 000.

Briefly, qualified shares are those of a Canadian-controlled private corporation actively carrying on a business.

**INCREASE FROM 69 TO 71 IN THE AGE LIMIT  
FOR MATURING RPPs AND RRSPs**

The 2007-2008 Budget provides that, for 2007 and subsequent taxation years, the age limit for converting registered retirement savings plans (RRSPs), registered pension plans (RPPs) and maturing deferred profit-sharing plans (DPSPs) will be increased from 69 to 71.

Currently, these plans must mature before the end of the year in which an annuitant or member turns 69. Once a plan has matured, no contributions may be made to it. The individual must then begin to withdraw the amounts accrued in the plan, generally in the form of a taxable life annuity. The announced changes therefore mean that the age limit for maturing DPSPs / RPPs and RRSPs is pushed back two years, giving people who are 70 or 71 the opportunity to continue accumulating retirement capital tax-free.

**RETIREMENT INCOME SPLITTING**

In December 2006, Québec announced that it would be allowing couples the option to split their retirement income as of the 2007 taxation year.

This measure will enable taxpayers who receive retirement income, such as payments under a registered pension plan, amounts withdrawn from a registered retirement savings plan (RRSP) and payments under a registered retirement income fund (RRIF), to transfer up to 50% of this income to their spouse.

The definition of eligible income in Québec will be harmonized with the federal tax system, which, since January 1, 2007, has also allowed couples to split certain types of retirement income.

Splitting retirement income will reduce the amount of income tax payable by a household. For example:

- A couple with one retirement income of \$25 000 will pay \$353 less in income tax;
- A couple with two retirement incomes totalling \$75 000 will receive a tax cut of \$488.

The income-splitting measure does not apply to certain types of retirement income, including pensions received under the Québec Pension Plan, Old Age Security pensions, and sums withdrawn from an RRSP before the age of 65.

**NEW REFUNDABLE TAX CREDIT FOR  
EDUCATION SAVINGS**

To encourage Québec families to save more for their children's post-secondary education, the 2007-2008 Budget provides that contributions to a registered education savings plan (RESP) will henceforth give entitlement to a refundable tax credit for education savings (RTCES) from the Québec government.

The tax credit is based on RESP contributions and the income of the beneficiary child's parents. Contributions may be made by the child's parents or grandparents, or by anyone wishing to participate financially in the child's education. The tax assistance for education savings will equal 10% of the first \$2 500 in annual contributions.

In the case of low- and middle-income families:

- the rate of the tax credit may increase from 10% to 20% on the first \$500 contributed yearly;
- the rate will remain at 10% for contributions over \$500, to a maximum of \$2 500.

Thus, in 2007, for an annual contribution of \$2 500, the Québec government will add:

- \$250 (10%) for a family income of over \$74 357;
- \$275 (11%) for a family income of over \$37 178 to \$74 357;
- \$300 (12%) for a family income of \$37 178 or less.

*(Continued on page 3)*

The maximum lifetime tax credit granted for one child is \$3 600.

The tax credit will be paid into the beneficiary's RESP account, on top of the contribution. The investment income generated by the contributions and the tax credit will accumulate sheltered from tax until the child begins post-secondary studies. The accumulated amounts will become taxable for the child once they have been received by the latter in the form of an education assistance payment.

The Québec tax credit is in addition to the federal education assistance granted on annual RESP savings.

In terms of the announcement of February 20, 2007, the maximum annual amount of the Québec refundable tax credit for education savings has been raised \$50. The ceiling on annual RESP contributions has been eliminated and the lifetime limit has been set at \$50 000 instead of \$42 000.

#### **INCREASE FROM \$1 000 TO \$1 500 IN THE TAX CREDIT FOR RETIREMENT INCOME**

The 2007-2008 Budget provides that, as of the 2007 taxation year, the maximum amount of retirement income to which the tax credit applies will be increased from \$1 000 to \$1 500.

The tax credit for retirement income is equal to 20% of the eligible retirement income received by an individual, including:

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

#### **NEW REFUNDABLE TAX CREDIT FOR PEOPLE PROVIDING RESPITE TO INFORMAL CAREGIVERS**

The 2007-2008 Budget provides for the introduction of a new refundable tax credit, as of the 2007 taxation year, to recognize the contribution of people who provide volunteer respite to informal caregivers of people with disabilities.

The amount of the tax credit will be:

- a maximum of \$500 for a person providing volunteer respite to the same informal caregiver;
- a maximum of \$1 000 for all of the people providing volunteer respite to the caregiver of the same care recipient.

People who offer volunteer respite care may claim the tax credit in their income tax return on the condition that they:

- provide the same caregiver with the equivalent of at least one day of free respite per week during a given year;
- receive an information slip from the caregiver attesting to the level of the tax credit;
- are not a member of the care recipient's immediate family.

#### **ENHANCEMENT OF THE REFUNDABLE TAX CREDIT FOR CHILD CARE EXPENSES**

The 2007-2008 Budget provides that the refundable tax credit for child care expenses will be granted regardless of earned income as of the 2007 taxation year.

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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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**ENHANCEMENT OF THE TAX TREATMENT FOR PARENTS  
WITH CHILDREN ENROLLED IN  
POST-SECONDARY STUDIES**

To ease the tax burden on parents who financially support their children's post-secondary education, the 2007-2008 Budget provides for significant changes to the tax assistance relative to education.

These changes will enhance and simplify the tax assistance for parents that have children engaged in vocational training or post-secondary studies.

More specifically, the 2007-2008 Budget provides that:

- the portion of tuition and examination fees not used by the student to offset his taxes may be transferred to the parents;

- the tax credit for children under 18 engaged in vocational training or post-secondary studies will be enhanced for parents;
- the portion of the amount for recognized essential needs not used by an adult student to reduce his taxes may be transferred to the parents.

The tax system grants parents of a child engaged in vocational training or post-secondary studies a tax credit determined on the basis of the amount of \$3 720 and the child's net income. The tax system will be changed as of the 2007 taxation year to reduce the amount used to calculate the tax credit by an amount equal to 80%, rather than 100%, of the child's net income. In addition, scholarships and bursaries will no longer be considered in the calculation of the child's income for the purposes of reducing the tax credit granted to the parents. These changes will increase the value of the tax credit for parents.

## Other Measures

**REDUCTION IN THE NUMBER OF INCOME TAX INSTALMENTS AND QST REMITTANCES**

**Corporate taxes**

- Quarterly, instead of monthly, instalment payments for certain small, Canadian-controlled private corporations.
- Increase from \$1 000 to \$3 000 in the threshold amount at which corporations can pay taxes once a year.

**Payroll deductions and employer contributions**

- Increase from \$1 000 to \$3 000 in the average monthly threshold for remitting payroll deductions quarterly rather than monthly.
- Increase from \$1 200 to \$2 400 in the annual threshold for remitting deductions once a year.

**Québec sales tax**

- Increase from \$500 000 to \$1.5 million in the taxable supplies threshold for annual filing of the QST return.
- Increase from \$1 500 to \$3 000 in the net tax threshold below which QST filers can make one remittance per year.

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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.**

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*Corporations (continued from page 1)*

**IMMEDIATE ELIMINATION OF THE TAX ON CAPITAL  
FOR MANUFACTURING BUSINESSES  
THAT MAKE NEW INVESTMENTS**

In order to rid the manufacturing sector of the capital tax burden more quickly, the government is raising the rate of the capital tax credit for new investments in manufacturing and processing machinery and equipment from 5% to 10%.

In addition, the government is extending the application period for the capital tax credit until elimination of the tax on capital.

The 10% capital tax credit applies to the cost of new acquisitions of manufacturing and processing machinery and equipment. It is applied against the tax on capital payable in respect of all of a company's activities.

Raising the rate of the capital tax credit from 5% to 10% will eliminate the tax on capital sooner, on all of their activities, for companies that invest in manufacturing and processing machinery and equipment.

**INCREASE IN CAPITAL COST ALLOWANCE RATES  
FOR BUILDINGS, COMPUTER HARDWARE  
AND CERTAIN OTHER ASSETS**

Capital cost allowance (CCA) rates will be raised for certain investments to better reflect the useful life of assets. The CCA rate for buildings used in the manufacturing and processing of goods is being increased to 10% to more accurately reflect the heavy use made of these assets. The rate applied to other non-residential buildings is going up to 6%. In addition, computer hardware can now be depreciated at a rate of 55%.

**ACCELERATED CAPITAL COST ALLOWANCE  
FOR MANUFACTURING AND PROCESSING  
MACHINERY AND EQUIPMENT**

A temporary measure is being introduced to enable accelerated capital cost allowance for manufacturing and processing machinery and equipment.

The capital cost allowance rate is being raised from 30% to 50% for manufacturing and processing machinery and equipment acquired before 2009. Machinery and equipment can henceforth be depreciated on a straight-line basis instead of on a diminishing-balance basis. This change will allow businesses to depreciate investments over a shorter period.

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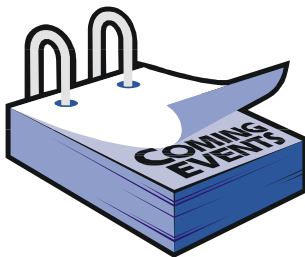


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## Harmonization With Federal Budget Measures

Québec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the measures which were contained in the Federal Budget relating to:

- the implementation of a registered disability savings plan;
- donations of publicly-listed securities to private foundations;
- the regime applicable to excess business holdings of private foundations;
- the elimination of the annual limit applicable to contributions paid under a registered education savings plan;
- the recognition of certain part-time study programs for the purposes of an educational assistance payment by a registered education savings plan;
- meal expenses of trucker drivers;
- the determination of the minimum withdrawal amount under a registered retirement income fund;
- gifts by corporations of medicines to developing countries;
- the limitation on the deductibility of interest relating to active income from a foreign affiliate; and
- The \$1,000 refund of Quebec sales tax (QST) paid on the purchase or long-term lease of a new hybrid vehicle, first announced in the March 23, 2006, budget speech, will be raised to a maximum amount of \$2,000. This measure will apply to 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.



### **ALERT DATES**

June 15, 2007

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, 2007

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

December 15, 2007

Fourth installment due for individuals required to make income

## **ABOUT LEVI & SINCLAIR**

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