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Tax Alert — Canada

Québec budget 2023-24: highlights

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

"During the last election campaign, we presented our priorities for the coming years to Quebecers. We promised to lower their taxes, step up our efforts to protect the French language, improve education and health services and protect our environment. Quebecers then placed their trust in us a second time. We are now committed to getting the work done for them. The government is continuing the efforts of the past four years. Budget 2023-2024 prioritizes the economy, education, health and the environment, while maintaining a prudent and responsible financial framework."

Québec Finance Minister Eric Girard
2023-24 budget speech

On 21 March 2023, Québec Finance Minister Eric Girard tabled the province's fiscal 2023-24 budget. The budget contains several tax measures affecting individuals and corporations.

The minister anticipates a deficit of $5.0 billion for fiscal 2022-23 (after contributions to the Generations Fund) and $4.0 billion for fiscal 2022-23, with reduced deficits for each of the next fiscal years. The government's objective is to restore fiscal balance by fiscal 2027-28.

Following are the highlights of the budget tabled by the Québec Minister of Finance.
A summary of the key tax measures announced will be available in our Tax Alert No. *13* — Québec budget 2023-24.

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Business tax measures

- **Corporate income tax rates:** No changes to the corporate income tax rates are proposed.

- **Introduction of a new tax holiday relating to the carrying out of a large investment project:** Introduction of a new tax holiday, namely the new tax holiday relating to the carrying out of a large investment project ("new tax holiday"). This new tax holiday will have a 10-year duration. It will take the form of a tax holiday in respect of the income from its eligible activities relating to the project and a holiday from employer contribution to the Health Services Fund (HSF) regarding the portion of wages paid to its employees that is attributable to the time they devote to such activities. It will be calculated by applying a rate of 15%, 20% or 25% to the cumulative total eligible expenditures related to the project. This rate will be determined according to the economic vitality index of the territory where the large investment project will be carried out, subject to certain rules applicable in the event that a large investment project is carried out in more than one territory. In addition, the cumulative total eligible expenditures relating to the project may not exceed $1 billion. To qualify for the new tax holiday, a project must not be carried out in an excluded sector of activity and, in order to claim it, the corporation or partnership must not carry on activities in an excluded sector of activity, subject to certain applicable rules. In addition, the project will have to satisfy a requirement to meet the $100-million investment threshold before the expiration of a 48-month investment period, beginning on the date specified on the initial qualification certificate issued in respect of the project. It will not be necessary to keep separate books for the activities arising from the project. The new tax holiday will apply in respect of an investment project for which an application for an initial qualification certificate is made after 21 March 2023.

  Elimination of the former tax holiday relating to the carrying out of a large investment project ("TH-LIP") effective as 21 March 2023. However, the elimination of the TH-LIP will not affect the eligibility for such tax holiday of corporations that already have an initial qualification certificate for an investment project, or of partnerships and member corporations thereof, that already have such a certificate or that have already applied for the issuance of an initial qualification certificate.

- **Changes to the refundable tax credit for Québec film or television production**: Amendments will be made to the *Sectoral Act* so that the undertaking of the aggregator to make the film available in Québec will be included in the exploitation requirements. Also, the *Sectoral Act* will be amended so that costs related to stock footage will be excluded from production cost requirements, both for a film that is not an inter-provincial co-production and for a film that is an interprovincial co-production.

- **Enhancement of the refundable tax credit for book publishing:** Amendment so that the 50% limit on qualified labour expenditure attributable to preparation costs and digital version publishing costs will be raised to 65%. Also, amendments so that the rate of the refundable tax credit for book publishing is increased from 27% to 35% with respect to qualified labour expenditure attributable to printing and reprinting costs.

- **Enhancement of the refundable tax credit for the production of multimedia events or environments presented outside Québec**: The definitions of "eligible employee" and "eligible individual" will be amended to remove the requirement that services be rendered in respect of nine specific functions. Also, amendments so that the 50% limit on qualified labour expenditure attributable to preparation costs and digital version publishing costs will be raised to 65%.

Personal tax measures

- **Personal income tax rates**: The tax legislation will be amended so that, as of the 2023 taxation year: (i) the tax rate for the first taxable income bracket, which does not exceed \$49,275 for the 2023 taxation year, will be reduced by one percentage point, from 15% to 14%; (ii) the tax rate for the second taxable income bracket, which is the bracket over \$49,275, but not exceeding \$98,540, will also be reduced by one percentage point, from 20% to 19%.

  The conversion rate applicable to various amounts for calculating personal tax credits, including the basic amount, will be reduced from 15% to the new rate applicable to the first taxable income bracket of the personal income tax table, that is, 14%.

  Furthermore, the tax legislation will be amended to include an increase in the amounts granted for the purpose of calculating the following personal tax credits as of the 2023 taxation year: (i) amount for a child under 18 enrolled in vocational training or post-secondary studies, (ii) amount for other dependants and, (iii) transferred amount representing the recognized parental contribution.

  The rate applicable to certain other tax credits will be reduced from 15% to 14% and other consequential amendments will be made.

- **Enhancement of the housing component of the refundable solidarity tax credit**: The amounts of the housing component of the solidarity tax credit applicable for the period from July 2022 to June 2023 will be indexed at a rate of 12.88% (instead of 6.44%) for the payment period beginning 1 July 2023.

- **Enhancement of the non-refundable tax credits for volunteer firefighters and search and rescue volunteers:** The \$3,000 amount used to determine these tax credits will be increased to \$5,000 so that each of these tax credits will correspond, as of the 2023 taxation year, to the amount equal to the product obtained by multiplying \$5,000 by the rate of the first taxable income bracket of the personal income tax table applicable for the year.

- **Reduction in Québec Pension Plan contributions:** For workers aged 65 or older, introduction of an option allowing workers aged 65 or over to stop paying Québec Pension Plan ("QPP") contributions, provided they are also receiving a QPP or Canada Pension Plan ("CPP") retirement pension. Also, amendment so that, as of the year 2024, the obligation to contribute to the QPP will cease for workers over 72 years of age. The employer will also be exempt from contributing to the QPP as of the same date applicable to the salaried employee.

Other tax measures

- **Increase in the specific duty on new tires for road vehicles:** The specific duty on new tires for road vehicles, as it is currently applied, will be increased.

- **Changes to the intervention framework for tax-advantaged funds:** Amendments to the constituting acts of the Fonds de solidarité des travailleurs du Québec (“Fonds de solidarité F.T.Q.”), the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l’emploi (“Fondaction” and together with Fonds de solidarité F.T.Q, "labour-sponsored fund”) and Capital régional et coopératif Desjardins (“CRCD Fund”) in order to:

  - Reorganize the investment categories provided for in each of the constituting acts;

  - Clarify the mission of the three tax-advantaged funds, in particular to introduce the concept of savings;

  - Increase the minimum holding period for shares in labour-sponsored funds (in general terms, to provide that the current minimum holding period of two years be gradually extended to five years);

  - Limit access to the non-refundable tax credit for a labour-sponsored fund (in general terms, an individual will no longer be able to benefit from this tax credit, as of the 2024 taxation year, as long as the individual’s taxable income is subject to the highest tax rate).

Other measures

- **Implementation of the new program for managing the tax exemption of First Nations regarding taxes:** Funding, over five years, for the implementation of a computer system under the new program for managing the tax exemptions of First Nations. This program, which will be phased in as of 1 July 2023, will allow persons with Indian status to benefit from the exemption to which they are entitled with respect to the tax on alcoholic beverages, directly at the time of purchase.

- **Strengthening tax compliance regarding cryptoassets:** Amendments to give the Minister of Revenue the power to ask taxpayers whether they own or have used virtual assets to carry out certain transactions during a taxation year or a fiscal year, as the case may be, and to request, where applicable, the details of these transactions.

Learn more

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