

ECONOMIC STATEMENT

by the Minister of Finance and Minister
responsible for Infrastructure, Monique Jérôme-Forget

January 2009

ADDITIONAL INFORMATION
ON THE FISCAL MEASURES

ADDITIONAL
IMMEDIATE ACTIONS
TO SUPPORT
THE ECONOMY
AND EMPLOYMENT



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ECONOMIC STATEMENT - Additional Information on the Fiscal Measures
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1. INTRODUCTION OF A REFUNDABLE TAX CREDIT FOR RENOVATION AND HOME IMPROVEMENT

Household spending on renovation and home improvement has a significant multiplier effect on the economy. When the economy is slowing, such spending may be curbed, particularly for large-scale projects.

Accordingly, to support the home renovation industry while improving the quality of life of families, a refundable tax credit of up to \$2 500 will be granted for 2009 to homeowners who engage a qualified contractor to carry out renovation or home improvement work on the dwelling they occupy as their principal residence.

1.1 Determination of the tax credit

An individual who resides in Québec at the end of December 31 of taxation year 2009 — or, if he dies or ceases to reside in Canada during the year, on the date of his death or the date he ceases to reside in Canada — may claim, for such year, a refundable tax credit for expenses incurred in the year to carry out recognized renovation and home improvement work on an eligible dwelling located in Québec, provided such expenses are paid no later than June 30, 2010.

This tax credit will be equal to 20% of the portion of the individual's eligible expenditures for the year in excess of \$7 500, up to a tax credit of \$2 500.

The following table illustrates the tax assistance that may be provided by this new tax credit for renovation and home improvement depending on an individual's eligible expenditures.

Illustration of the tax credit depending on eligible expenditures
(2009)

| Eligible expenditures for the tax credit (dollars) | Tax credit (dollars) | As a percentage (%) of eligible expenditures |
|---|---------------------------------|---|
| 7 500 | — | — |
| 10 000 | 500 | 5.00 |
| 12 500 | 1 000 | 8.00 |
| 15 000 | 1 500 | 10.00 |
| 17 500 | 2 000 | 11.43 |
| 20 000 | 2 500 | 12.50 |
| 25 000 | 2 500 | 10.00 |

To receive this tax credit, an individual will have to enclose, with his tax return for 2009, an information return, using the prescribed form, showing, among other things, the description of the work carried out, its cost, the registration number assigned under the Act respecting the Québec sales tax to the person who carried out the work and, if applicable, the license number issued by the Régie du bâtiment du Québec to the contractor who carried out the work.

The supporting documents (bid, invoices, etc.) must be kept for the purposes of subsequent audit by Revenu Québec. The time period for keeping the supporting documents will be the same as that under the general rule, according to which anyone who is required to keep registers must retain them, as well as any documents substantiating the information contained therein, for six years after the last year to which they apply.

Moreover, should more than one individual be entitled to the refundable tax credit for renovation and home improvement for work carried out on the same eligible dwelling, the total of the amounts shown by each of them on their tax return must not exceed the amount that would be granted if only one of them were entitled to the tax credit for the year. Failing an agreement between the individuals, the Minister of Revenue will determine the amount each of them may claim.

1.2 Eligible dwelling

For the purposes of the tax credit for renovation and home improvement, an eligible dwelling of an individual means a dwelling built before 2009, other than an excluded dwelling, of which the individual is the owner (or co-owner) at the time the renovation or home improvement expenses are incurred and that constitutes, at that time, his principal residence, provided such dwelling is an individual house,¹ a manufactured home or a mobile home permanently installed, an apartment in a condominium building or an apartment in a residential duplex or triplex, and includes any adjoining or incidental structure of such dwelling.

For this purpose, a structure consists of an ordered assembly of materials either placed on or connected to the ground, or attached to a dwelling and intended to be used as a shelter or as support, prop or backing for moving above ground level. For example, it may be a garage, shed, front steps, patio or balcony.

For greater clarity, swimming pools, hot tubs, saunas and other similar equipment are not considered structures, nor are lot improvements such as driveways, footpaths, fences, low walls and paving stones used for landscaping.

1 A house is considered an individual house if it is detached, semi-detached or a row-house.

However, any part of a duplex or triplex provided for the common use of the occupants will be considered a structure adjoining a dwelling, if the latter is an apartment in a residential duplex or triplex, provided each of the apartments in the building is occupied, at the time the renovation or home improvement expenses are incurred, as principal residence by an individual who is its co-owner at that time.

❑ Excluded dwelling

An individual's dwelling will be considered an excluded dwelling if, before the recognized renovation or home improvement work is carried out, it is the object:

- either of a notice of expropriation or a notice of intention to expropriate;
- or a reserve for public purposes;²
- or a notice of exercise of a hypothecary right registered with the rights publicity office or any other procedure calling the individual's ownership of the dwelling into question.

❑ Clarifications regarding certain dwellings

A dwelling that is a manufactured home or a mobile home will not be considered permanently installed unless the following conditions are satisfied:

- it is set on permanent foundations;
- it is served either by a water and sewer system or by an artesian well and septic tank, or by a combination of these providing drinking water and wastewater disposal;
- it is permanently connected to an electricity distribution network.

Moreover, an apartment in a condominium building or a structure adjoining or incidental to it includes only the portion of the apartment or of the structure, as the case may be, that is a private section.³

2 Essentially, the main objective of the reserve for public purposes is to ban, from the date it is imposed, development of a building covered by plans for its subsequent expropriation. A reserve for public purposes generally prohibits any construction, improvement or addition to the building covered by the reserve, other than repairs made necessary to prevent deterioration.

3 The private sections are the various portions of the apartment or structure, as the case may be, that belong to the individual exclusively.

As a result, no common portion, whether or not its use is restricted,⁴ may, for the purposes of the tax credit, be part of an apartment in a condominium building or of a structure adjoining or incidental to it.

1.3 Renovation and home improvement work

The renovation and home improvement work recognized for the purposes of the tax credit an individual may receive consists of:

- renovation,⁵ reorganization,⁶ improvement, conversion or expansion work on the individual's eligible dwelling, including the addition of structures⁷ adjoining or incidental to the dwelling;
- the work needed to restore the lot to its condition before the work described above was carried out.

However, the carrying out of the recognized work must be entrusted to a contractor under the terms of an agreement entered into after December 31, 2008 and before January 1, 2010, hereunder called the "home renovation agreement", by the individual or by the person who, at the time the agreement is entered into, is his spouse or another individual who is the owner of the eligible dwelling. At the time such agreement is entered into, the contractor must be a person or a partnership with an establishment in Québec, other than a person who is the owner of the eligible dwelling or who is the spouse of one of the owners of the eligible dwelling.

In addition, where the carrying out of such work requires a license issued under the Building Act, the contractor who was entrusted with carrying out the work must, at the time the work is carried out, hold an appropriate license issued by the Régie du bâtiment du Québec and, if any, the security of license, unless the work is carried out regarding an eligible dwelling located in a region not served by a road for the purposes of the Act respecting roads.

4 A common section is of restricted use where it can be used only by some or one of the co-owners.

5 Essentially, refurbishment work done to improve the appearance and functional nature of a dwelling.

6 Reorganization work consists of altering the interior distribution of the rooms, openings and divisions of a dwelling without increasing the floor space or air space.

7 To that end, the expression "structure" has the same meaning as given to it for the purposes of the definition of the expression "eligible dwelling".

In addition, the work must, if necessary, be carried out in compliance with the Protection Policy for Lakeshores, Riverbanks, Littoral Zones and Floodplains.⁸

For greater clarity, work consisting exclusively of repair or maintenance work on an eligible dwelling will not be recognized for the purposes of the tax credit. Such will be the case, for instance, for work whose sole purpose is to repair an existing part of an eligible dwelling following a break or fault (for example, the sealing of a crack in the foundations).

The following table shows the major work recognized and not recognized for the purposes of the tax credit.

Renovation and home improvement work

| Recognized work | Work not recognized |
|--|--|
| <ul style="list-style-type: none"> - Renovation of a kitchen, bathroom, washroom, etc. - Replacement of floor coverings - Finishing a basement, attic, garage, etc. - Division of rooms (knocking down walls or addition of partitions) - Replacement of a stairway - Expansion of a house built before 2009 (addition to the house, construction of a canopy, solarium, patio, balcony, etc.) - Construction work on structures adjoining or incidental to a house built before 2009 (garage, shed, etc.) - Replacement of the plumbing, electrical system, heating system, air exchange system, etc. - Installation of a heat pump or air conditioning system - Installation of a fireplace - Installation of an alarm system or home automation system - Insulation (including for a garage) - Replacement of the roofing, rainwater gutters and chimney - Replacement of the exterior siding - Replacement of doors and windows, shutters, etc. - Replacement of a patio, stairs, front steps, etc. - Replacement of a weeping tile, sanitary drainage, fall pipe or foundation drain | <ul style="list-style-type: none"> - Work aimed exclusively at repairs (repairing a leak, a door, etc.) or maintenance (application of paint to walls solely to spruce up the appearance) - Interior decoration (decorator's service) - Installation of household appliances - Installation of a swimming pool, hot tub, sauna, etc. - Landscaping, other than to restore the lot to its condition prior to the recognized work - Refurbishment of access points (footpaths, driveway, etc.), unless made necessary as a result of the recognized work - Drilling a well, installation of a septic tank and septic field - Erecting or repairing a fence, low wall, etc. - Construction of outdoor play equipment |

⁸ Introduced in 1987, the purpose of this policy is to provide adequate minimum protection for riverbanks, shores and flood plains by restricting the structures, work or buildings that can be carried out there. The policy is applied through the land use and zoning bylaws of municipalities, which emerge from the development plans of regional county municipalities (RCM).

1.4 Eligible expenditures

For the purposes of the calculation of the tax credit, an individual's eligible expenditures are equal to the total expenditures attributable to the carrying out of the recognized work stipulated by a home renovation agreement regarding the individual's eligible dwelling, provided these expenditures, on the one hand, are paid no later than June 30, 2010, either by the individual or his legal representative, or by a person who is the spouse of the individual during 2009 or at the time of payment of such expenditures, or by any other individual who, at the time the expenditures are incurred, is the owner of the eligible dwelling and, on the other hand, are not considered an excluded expenditure.

More specifically, the expenditures attributable to the carrying out of the recognized work stipulated by a home renovation agreement regarding the individual's eligible dwelling correspond:

- to the cost of labour supplied by the contractor to carry out the work, including, as the case may be, the goods and services tax (GST) and the Québec sales tax (QST) applicable thereto;
- the cost of movables, other than household appliances, that enter into the carrying out of the work, including, as the case may be, the GST and QST applicable thereto, provided such movables were acquired from the contractor or from a merchant with a registration number assigned under the Act respecting the Québec sales tax and that, after the work is carried out:
 - either they are incorporated with the eligible dwelling, lose their individuality and ensure the usefulness of the dwelling;⁹
 - or are permanently physically attached or joined to the eligible dwelling — without however losing their individuality and being incorporated with the dwelling — and ensure its usefulness.¹⁰

9 For example, building materials, rainwater gutters, lightning rods, doors, windows, sanitary appliances (washbasins, toilets, etc.), plumbing fixtures, electrical system, heating system, integrated heat pump, tiles, wallpaper, parquet flooring, etc.

10 For example, the water-heater, electric wall lights and heaters, ceiling lamps, ceiling fans, kitchen cabinets, non-integrated heat pump, non-glued wall-to-wall carpet, etc.

❑ Excluded expenditure

Any portion of an individual's expenditures attributable to the carrying out of recognized work stipulated by a home renovation agreement regarding the individual's eligible dwelling that was included for the purposes of calculating costs or expenditures giving rise to another tax credit¹¹ claimed by the individual or by another person in a tax return filed under Québec's legislation for taxation year 2009 or for any subsequent year shall be considered an excluded expenditure for the purposes of the refundable tax credit for renovation and home improvement.

❑ Reimbursement or other form of assistance

For the purposes of calculating the tax credit, an individual's eligible expenditures must be reduced, if applicable, by the amount of any government¹² or non-government assistance,¹³ any refund or other form of assistance, including an indemnity paid under an insurance contract, that the individual or any other person — other than a person acting as the contractor carrying out the work — received or is entitled to receive in relation to the carrying out of the recognized work stipulated by a home renovation agreement entered into regarding the individual's eligible dwelling.

However, government assistance that consists of tax relief granted under the federal tax system or the new refundable tax credit for renovation and home improvement need not be applied against an individual's eligible expenditures.

11 Like the refundable or non-refundable tax credit for medical expenses.

12 The amounts granted under the Rénovation Québec program, the rural renovation assistance program (Rénovillage) and the residential adaptation program are examples of government assistance.

13 For example, the assistance provided by Gaz Métro Limited Partnership for the replacement of a natural gas central heating appliance or a manufacturer's rebate.

2. IMPROVEMENTS TO THE REFUNDABLE TAX CREDIT FOR QUÉBEC FILM AND TELEVISION PRODUCTION

The refundable tax credit for Québec film and television production applies to labour expenditures incurred by a corporation that produces a Québec film and generally corresponds to 29.1667% or 39.375% of the eligible labour expenditures incurred to produce the film. However, the labour expenditures giving rise to this tax credit may not exceed 50% of the production costs of the film, so that the tax assistance generally may not exceed 14.58335% or 19.6875% of such expenses.

Under the application of this tax credit, the rate of 39.375% applies to labour expenditures relating to the production of certain French-language feature, medium and short films, certain broadcasts intended for young people and certain documentaries (hereunder called “eligible French-language productions”). The situation is the same in the case of giant screen films regardless of language.

Other productions, if they include labour expenditures for computer-aided special effects and animation, may be covered by additional tax assistance at the rate of 10.2083% regarding such expenditures. Accordingly, the increased rate of the tax credit for these labour expenditures also corresponds to the higher rate of 39.375%.

Rates are also increased regarding eligible labour expenditures incurred in relation to a regional production and that are directly attributable to services provided in Québec outside the Montréal region by a producer established outside the Montréal region. Accordingly, in the case of an eligible French-language production and a giant screen film, the increase rate for regional production is 9.1875% while in the case of any other production, the rate of this increase is 19.3958%. Accordingly, the increased rates of the tax credit are the same, i.e. 48.5625%.

Regardless of the applicable increases, the rate of the tax credit relating to a labour expenditure can never, in total, exceed 48.5625%. Neither can eligible labour expenditures exceed 50% of the production costs of the film, with the result that the tax assistance can reach 24.28125% of such costs.

Moreover, the tax credit can at no time exceed \$2 187 500 per film or per series.

Québec's film and television industry is particularly affected by the difficult economic situation and by more intense tax competition among the provinces to attract productions. Consequently, to further support this industry, the following measures will be implemented:

- the base rates of 29.1667% and 39.375% of the tax credit will be raised to 35% and 45% respectively;
- a new increase of 10% will be introduced for certain Québec film and television productions, provided they are not covered by a financial assistance granted by a public organization;
- the per film or per series cap on the tax credit, currently \$2 187 500, will be eliminated;
- the maximum rate of the tax credit, currently 48.5625%, will be raised to 65%.

Lastly, for the sake of simplification, the rates of the various increases added to the tax credit will be raised so that they no longer contain decimals.

2.1 Base rates of the tax credit raised

The tax credit for Québec film and television production applies to labour expenditures incurred by a corporation that produces a Québec film, has two base rates that vary depending on the type of production.

Accordingly, a rate of 39.375% applies to an eligible production that is a French-language short, medium or feature film, broadcast for young people, single documentary, or a giant screen film regardless of language. For any other eligible production, the rate is 29.1667%.

Each of these two base rates can be increased, depending on where the production is shot, and the base rate of 29.1667% can also be enhanced depending on certain characteristics specific to the production, as computer-aided animation.

To further encourage Québec's film and television industry, the base rates of 39.375% and 29.1667% will rise to 45% and 35% respectively regarding eligible labour expenditures incurred as of January 1, 2009.

2.2 Increase relating to certain productions that do not receive any financial assistance granted by a public organization

Some Québec film and television productions are made without any financial assistance granted by a public organization. To support the work of producers of some of these productions by reducing their financial burden, a new 10% increase of the labour expenditures that entitle to the tax credit for Québec film and television production will be introduced.

☐ Eligible productions

The new 10% increase will apply to a production that is otherwise eligible for the tax credit and that is a fiction feature film or a single documentary, provided such production is not covered by any financial assistance granted by a public organization.

To qualify, a fiction feature film must be a production of fiction lasting a minimum of 75 minutes, and a single documentary must last a minimum of 30 minutes, unless it is intended for children under age 13.

☐ Financial assistance granted by a public organization

Generally speaking, the amount of any government assistance and any non-government assistance, other than an excluded amount of assistance, that a corporation received or is entitled to receive, must reduce in particular the amount of eligible expenditures included in the calculation of the tax credit.

Financial assistance granted by a public organization, for determining the eligibility to the increase, means financial assistance that constitutes an excluded amount of assistance for the purposes of the rules relating to government or non-government assistance under the tax credit¹⁴.

14 For greater clarity, financial assistance granted by a public organization does not include an amount a corporation receives on account of the tax credit for Québec film and television production or on account of a federal tax credit for Canadian film or video production or on account of a federal tax credit for film or video production services. It neither includes the amount of any financial contribution paid by a public body that holds a broadcasting licence issued by the Canadian Radio-television and Telecommunications Commission.

For example, financial assistance granted by the Société de développement des entreprises culturelles (SODEC) constitutes an excluded amount of assistance. The financial assistance granted by Telefilm Canada in accordance with the Canadian Film Development Corporation Act (R.S.C. (1985), c. C-16), other than any subsidy granted by that body under a dubbing and subtitling assistance fund is another example of excluded amount of assistance. The same is true of the financial assistance granted by the Canadian Television Fund under the License Fee Program or the Equity Investment Program.

❑ Certificate issued by SODEC

To be entitled to the additional tax assistance of 10% regarding a film or television production, the certificate issued by SODEC for the production, that the eligible corporation must attach to the form it must file to receive the tax credit for Québec film and television production, must specify that the production is a fiction feature film or a single documentary, as the case may be.

❑ Application date

These changes will apply in relation to eligible labour expenditures incurred as of January 1, 2009.

2.3 Elimination of the cap on the tax credit

To foster the shooting of more ambitious productions, the cap regarding a film or a series, currently \$2 187 500, will be eliminated.

This change will apply in relation to eligible labour expenditures incurred as of January 1, 2009.

However, in the case of a production regarding which the eligible labour expenditures are incurred both no later than December 31, 2008 and after that date, the following rules will apply:

- the cap of \$2 187 500 will apply to the tax credit that will be calculated according to the usual rules if the eligible labour expenditures incurred no later than December 31, 2008 constituted all the eligible labour expenditures incurred regarding the production; and

- the cap will be eliminated regarding the tax credit that would be calculated according to the usual rules if the eligible labour expenditures incurred after December 31, 2008 constituted all the eligible labour expenditures incurred.¹⁵

2.4 Maximum rate of the tax credit raised

Because of the increase in the base rates and the new 10% increase in relation to certain productions that do not receive any financial assistance granted by a public organization, the maximum rate of the tax credit for Québec film and television production, currently 48.5625%, will be raised to 65%.

Moreover, should the total labour expenditures eligible for the tax credit exceed the cap of 50% of production costs, the special rule currently stipulated to have this cap attributed first to labour expenditures eligible for the increase for regional production will be maintained.

This change will apply in relation to eligible labour expenditures incurred as of January 1, 2009.

2.5 Adjustment to the rates of the increases relating to the tax credit

Currently, the rates of the increases relating to the tax credit are 9.1875%, 10.2083% and 19.3958%, depending on the situation in question. Moreover, the new increase relating to certain productions that do not receive financial assistance granted by a public organization will be 10%. In the interests of simplifying and harmonizing the rates of the various increases, these rates will be adjusted.

Accordingly, the rate of the increase for computer-aided special effects and animation will be adjusted from 10.2083% to 10% while those of the increase for regional production, currently 9.1875% and 19.3958%, as the case may be, will be raised to 10% and 20% respectively.

These changes will apply in relation to eligible labour expenditures incurred as of January 1, 2009.

Table A shows the current rates applicable under the tax credit while Table B shows the new rates that will apply further to the changes announced.

¹⁵ For example, in the case of a production for which the tax credit calculated for the period ended December 31, 2008 is \$2 500 000 and the tax credit calculated for the period beginning after December 31, 2008 is \$2 700 000, the total tax credit will be equal to \$4 887 500, i.e. the sum of \$2 187 500 and \$2 700 000.

TABLE A

Refundable tax credit for Québec film and television production before changes
(Percent)

| | Tax credit rate | | | | | | Effective rate ¹ | |
|--|-----------------|---|----------------------------------|----------------------|----------------------------|-----------------------------|-----------------------------|-------------------------|
| | Base rate | Increase for computer animation and special effects | Increase for regional production | Maximum rate | Cap on labour expenditures | Effective rate ¹ | | |
| | | | | | | (% of labour expenditures) | | (% of production costs) |
| French-language feature film, short and medium length film, single documentary and broadcasts for young people | 39.375 | n.a. | 9.1875 | 48.5625 | 50 | 19.6875 | 24.28125 | |
| Giant-screen film | 39.375 | n.a. | 9.1875 | 48.5625 | 50 | 19.6875 | 24.28125 | |
| Other production | 29.1667 | 10.2083 | 19.3958 | 48.5625 ³ | 50 | 14.58335 | 24.28125 | |

1 The effective rate is obtained by multiplying the nominal rate of the tax credit, expressed as a function of labour expenditures, by the rate of the cap, expressed as a function of production costs.

2 To determine the maximum assistance, it is assumed that the labour expenditures that give rise to the base rate also give rise to the additional rate for regional production.

3 Where all or part of the labour expenditures give rise to the increase for computer animation and special effects and to the increase for regional production, the total cannot exceed 48.5625%.

TABLE B

Refundable tax credit for Québec film and television production with changes
 (Percent)

| | Tax credit rate | | | | | | | Effective rate ³ | |
|--|-----------------|---|----------------------------------|---|-----------------|----------------------------|----------------------------|-----------------------------|---------|
| | Base rate | Increase for computer animation and special effects | Increase for regional production | Increase without public financial assistance ¹ | Maximum rate | Cap on labour expenditures | | | |
| | | | | | | | (% of labour expenditures) | (% of production costs) | Minimum |
| French-language feature film, short and medium length film, single documentary and broadcasts for young people | 45 | n.a. | 10 | 10 | 65 | 50 | 22.5 | 32.5 ⁴ | |
| Giant-screen film | 45 | n.a. | 10 | 10 | 65 | 50 | 22.5 | 32.5 ⁴ | |
| Other production | 35 | 10 | 20 | 10 | 65 ² | 50 | 17.5 | 32.5 ⁵ | |

1 This increase applies to a Québec film and television production that is a fiction feature film or a single documentary that do not receive any financial assistance granted by a public organization.

2 Where all or part of the labour expenditures give rise to more than one increase, the total cannot exceed 65%.

3 The effective rate is obtained by multiplying the rate of the tax credit, expressed as a function of labour expenditures, by the rate of the cap, expressed as a function of production costs.

4 To determine the maximum assistance, it is assumed that the labour expenditures that give rise to the base rate also give rise to the additional rates for regional production and for the increase where there is no public financial assistance.

5 To determine the maximum assistance, it is assumed that the labour expenditures that give rise to the base rate also give rise to the additional rate for regional production and, as the case may be, the rates for computer animation and special effects or the increase where there is no public financial assistance.

