Subject: Various tax changes

The purpose of this information bulletin is to release amendments that will be made to many Québec's tax measures.

These amendments generally represent relatively minor or technical adjustments, and concern, in particular, the Information Technology Development Centres, the Stock Savings Plan, Québec business investment companies, the tax treatment of clothes acquired by certain workers, and various federal measures that will be incorporated in Québec's tax legislation.

For any information regarding the subjects dealt with in this bulletin, interested persons can contact the Direction générale de la fiscalité at (418) 691-2236.
Bulletin d’information 98-7

Various tax changes

1. INFORMATION TECHNOLOGY DEVELOPMENT CENTRES ................................................................. 1
   1.1 Montréal ITDC ............................................................................................................................ 1
   1.2 Hull ITDC ................................................................................................................................... 2

2. EASING OF THE CRITERION REGARDING THE NUMBER OF EMPLOYEES OF AN ISSUING CORPORATION UNDER THE STOCK SAVINGS PLAN ............................................. 2

3. QUÉBEC BUSINESS INVESTMENT COMPANIES ........................................................................ 2
   3.1 Easing of the requirement regarding the salaries paid to Québec employees ......................... 3
   3.2 Effective date of regulations passed under the Act respecting Québec business investment companies ........................................................................................................... 3
   3.3 Penalties increased ..................................................................................................................... 4

4. CLARIFICATIONS TO THE CALCULATION PROCEDURES FOR THE TAX CREDIT FOR FILM AND TELEVISION PRODUCTION .................................................................................... 4

5. APPLICATION OF RULES RELATING TO CONTRIBUTIONS REGARDING R&D CONTRACTS ................................................................................................................................. 5

6. TAXATION OF INCOME EARNED BY AN AMERICAN S CORPORATION ........................................... 6

7. CLARIFICATION RELATING TO THE ADDITIONNAL ALLOWANCE FOR THE TREATMENT OF MINE TAILINGS ........................................................................................................... 8

8. STANDARDIZATION OF RULES RELATING TO THE NOTION OF TAXABLE BENEFIT FOR TRAINING EXPENSES PAID BY AN EMPLOYER ........................................................................... 9

9. BROADENING OF THE CONCEPT OF GIFTS OF PROPERTY HAVING UNDENIABLE ECOLOGICAL VALUE ........................................................................................................................ 10
10. PRESCRIPTION DRUG INSURANCE PLAN ................................................................. 11

10.1 Deductions used to calculate the premium for 1998 .............................................. 11

10.2 Exemption of Indians and Inuit .............................................................................. 12

11. SPLITTING OF THE MAXIMUM AMOUNT OF THE FAMILY TAX REDUCTION ................................................................. 13

12. NOTION OF TOTAL INCOME FOR THE PURPOSES OF THE PWA BENEFIT ................................................................. 13

13. TAX TREATMENT OF ASSISTANCE OF LAST RESORT BENEFITS ................................................................. 15

14. HSF CONTRIBUTION PAYABLE BY CERTAIN INDIVIDUALS RECEIVING A RETROACTIVE PAYMENT FROM THE RRQ ................................................................. 15

15. CLARIFICATION RELATING TO THE TAX TREATMENT OF CLOTHES ACQUIRED BY CERTAIN SELF-EMPLOYED WORKERS ................................................................. 16

16. POSSIBILITY OF ISSUING AN ASSESSMENT FOLLOWING AN ASSESSMENT ISSUED UNDER FEDERAL TAX LEGISLATION ................................................................. 17

17. HARMONIZATION WITH FEDERAL TAX LEGISLATION AND REGULATIONS ................................................................. 18

17.1 Income tax measures .......................................................................................... 18

   Proposed additions to the list of prescribed stock exchanges outside Canada .......... 18

   Revised legislative amendments concerning mortgage investment corporations and investment corporations ................................................................. 18

   Change to the tax rules governing lease financing .............................................. 19

17.2 Proposals concerning retirement savings and pension adjustment reversals .......... 20

17.3 Measures concerning the goods and services tax and the harmonized sales tax ................................................................................................. 21

   Measures retained .......................................................................................... 21

   Application dates .......................................................................................... 22
1. INFORMATION TECHNOLOGY DEVELOPMENT CENTRES

The measures regarding Information Technology Development Centres (ITDCs) were introduced in the March 25, 1997 Budget Speech. Briefly, these measures are designed to support corporations that undertake to carry out innovative projects, in designated buildings, in emerging sectors of activity, such as multimedia and the information highway.

The Cité du multimédia, located near the Old Port of Montréal, was created on June 15, 1998. Briefly, eligible corporations that establish themselves in the Cité du multimédia can claim a refundable tax credit regarding eligible wages they incur and pay to eligible employees to carry out eligible activities in designated buildings in Montréal.

1.1 Montréal ITDC

The Montréal ITDC, currently located at 46, 48, 50 and 80 Queen Street, and at 71 and 87 Prince Street, consists of buildings that are also designated buildings of the Cité du multimédia. The corporations that move into these buildings will accordingly receive tax assistance under either of the two set of tax measures in question, namely the ones applicable to corporations that carry out eligible activities in the Cité du multimédia and the ones applicable to corporations that carry out an innovative project in an ITDC.

As a result of this situation, a substantial portion of the space initially planned for the Montréal ITDC will no longer be available for corporations that want to receive the tax assistance granted in this regard.

Accordingly, the current designation of the Montréal ITDC will be replaced by a general designation of rental spaces, not exceeding a total area of 15 000 square metres, located in any designated building of the Cité du multimédia.

The Information Technology Development Centres Office (ITDCO) may accordingly issue to corporations that carry out an innovative project in any such building, eligibility certificates allowing a corporation to receive the tax assistance applicable to ITDCs. The rental spaces so designated will be deemed to be, for the period of validity of such designation, ITDCs.
The ITDCO will ensure that such designations do not exceed, at any time, the limit of 15 000 square metres.

1.2 Hull ITDC

The current designation of the Hull ITDC will be replaced by the designation of a new building located at 490 St-Joseph Boulevard.

2. EASING OF THE CRITERION REGARDING THE NUMBER OF EMPLOYEES OF AN ISSUING CORPORATION UNDER THE STOCK SAVINGS PLAN

In general, according to the existing terms and conditions of the Stock Savings Plan, a corporation which intends to proceed with a public issue of shares under this plan must, in particular, have had, throughout the twelve months preceding the date of the receipt for the final prospectus (or of the prospectus exemption), at least five full-time employees who are not insiders as understood by the Securities Act or persons to whom they are related.

For a public issue of shares for which the receipt of the final prospectus (or prospectus exemption) has been granted after the date of publication of this information bulletin, the rule concerning the at least five full-time employees will be eased in some cases. Hence, provided a category of shares of the capital stock of the corporation will have been listed on the Montréal Exchange during the entire twelve month period before the date of the final prospectus (or prospectus exemption), the corporation will not have to satisfy this criterion of five employees.

3. QUÉBEC BUSINESS INVESTMENT COMPANIES

The objective of the Québec business investment companies (QBIC) program is to enable small and medium-sized businesses in Québec to have access to outside sources of financing to secure their permanent capitalization and long-term development.
To this end, the program have been modified numerous times to enable QBICs to fully play their role of raising venture capital. In particular, in the May 9, 1995 Budget Speech, the government announced an increase in the investment that a qualified corporation can receive under the QBIC program. Since then, a qualified corporation may receive up to 5 millions dollars of qualified investment.

3.1 Easing of the requirement regarding the salaries paid to Québec employees

To be a qualified corporation, the Act respecting Québec business investment companies (AQBIC) stipulates that, in the last 12 months preceding the date of a qualified investment and during the 24 months following such an investment, more than 75% of the salaries paid to the corporation’s employees and, as the case may be, to employees of corporations with which it is associated, must have been paid to employees of an establishment situated in Québec. Such a restriction can be too strict in the actual economic context, where businesses in Québec extend their activities beyond our boundaries to foreign markets.

Consequently, the AQBIC will be amended to enable a corporation to receive an investment from a QBIC when, in the last 12 months preceding the date of a qualified investment and during the 12 months following such an investment, more than 50% of the salaries paid to the corporation’s employees and, as the case may be, to employees of corporations with which it is associated, have been paid to employees of an establishment situated in Québec.

This change will apply to a qualified investment made after May 9, 1995.

3.2 Effective date of regulations passed under the Act respecting Québec business investment companies

The Taxation Act contains provisions relating to QBICs. The regulations adopted under this act may become effective at a date prior to that of their publication in the Gazette officielle du Québec, since there is generally a certain period of time between the date a tax policy is announced and the approval of the legislation in question.
The administration of the AQBIC requires similar rules. Consequently, the AQBIC will be amended so that the regulations adopted under such act can become effective at a date prior to the date of their publication in the Gazette officielle du Québec.

3.3 Penalties increased

In general, the rates for penalties that QBICs and qualified corporations which receive an investment from a QBIC may incur depends on the value of the tax benefits granted to individuals who invest in a QBIC.

In recent years, changes have been made to Québec’s tax legislation, especially concerning personal tax rates and the raising of the QBIC deduction. However, the rates of the penalties applicable to QBICs and to qualified corporations that receive investments from a QBIC have not been raised accordingly.

Québec’s tax legislation will be changed so that the rate of all penalties applicable to QBICs and to qualified corporations that receive investments from a QBIC will rise to 40%.

This change will apply regarding any event triggering the imposition of a penalty and occurring after the day of publication of this Information Bulletin.

4. Clarifications to the Calculation Procedures for the Tax Credit for Film and Television Production

Currently, an eligible corporation that produces a certified Québec film can claim a refundable tax credit equal to a given percentage of the eligible labour expenditures it incurs for such purpose. However, these expenditures cannot exceed 45% of the film’s production expenses. Furthermore, as part of the application of this tax credit, additional assistance may be granted regarding labour expenditures relating to the computer animation or special effects production.
The tax legislation also stipulates that the amounts of production expenses and of labour expenses entitling a taxpayer to the tax credit must, if need be, be reduced by the amount of any government or non-government assistance which the corporation that produced the film has received or is entitled to receive in this regard, except a prescribed amount. As a result of these rules, financing obtained through certain production assistance programs, which are specifically listed in the tax regulations, is not considered in calculating the tax credit.

Changes will be made to these rules to ensure that the financing obtained under two assistance programs that have replaced, in part, one assistance program covered by the regulations, is not considered in calculating the tax credit. For this purpose, the tax regulations will be changed to stipulate that an amount which the corporation that produced the film has receive or is entitled to receive under the Equity Investment Program or the Licence Fee Program is a prescribed amount for the purposes of the tax credit for film and television production.

These programs are part of the Canada Television and Cable Production Fund, formed in the fall of 1996, and which, since September 1998, is known as the Canadian Television Fund.

This change is effective since the announcement of the creation of the Canada Television and Cable Production Fund, i.e., since September 9, 1996.

5. APPLICATION OF RULES RELATING TO CONTRIBUTIONS REGARDING R&D CONTRACTS

In general, when a taxpayer concludes a university research contract or an eligible research contract, he can claim a refundable tax credit equal to 40% of 80% of the amount of an eligible expenditure paid to the eligible university entity, the eligible public research centre or the research consortium, as the case may be (the recognized organizations).
Certain situations may arise where a recognized organization undertakes to carry out part of the work itself and expects to award a sub-contract to carry out a specific part of the scientific research and experimental development (R&D) work covered by a research contract, the latter part being clearly identified in the contract. In such a case, under definitions provided to that effect, the ministère du Revenu considers that the contract concluded with a recognized organization is a university research contract (or an eligible research contract, as the case may be), solely for the portion of the work that is not covered by a sub-contract and for which the recognized organization remains the prime contractor.

Furthermore, specific rules have been added to the legislation regarding contributions. In such a case, these rules may also result in a reduction in the expenditure eligible for a tax credit.

To prevent a portion of the refundable tax credit from being lost in certain cases, a clarification will be made regarding certain refundable tax credits relating to research contracts concluded with recognized organizations and stipulating such sub-contracts. The amount of such sub-contract will be deemed, when not supported by the recognized organization, not to constitute a contribution for the calculation of those refundable tax credits. Only the reduction resulting from the definition of university research contracts or eligible research contracts will then apply.

This clarification will apply to R&D carried out after February 28, 1997, under a university research contract or an eligible research contract concluded after that date.

6. **TAXATION OF INCOME EARNED BY AN AMERICAN “S CORPORATION”**

Canadian and Québec tax legislation generally stipulate that the shareholders of a corporation are not liable for tax on the income earned by the corporation until such income is distributed to them.
Under American tax legislation, shareholders of an “S corporation”¹ are liable for tax on the income earned by such corporation as the income is earned.

In view of this difference in tax treatment, it is possible that American, Canadian and Québec taxes paid by a Canadian shareholder of an American “S corporation” are not paid during the same taxation year, in which case the shareholder could not claim the foreign tax credit stipulated in Canadian and Québec tax legislation.

To prevent double taxation which may result from this situation, the Canada / United States Tax Convention stipulates that a Canadian resident who is a shareholder of an American “S corporation” may ask Revenue Canada to be taxed on the income earned by such corporation as it is earned, rather than only when it is distributed. More specifically, the Canadian tax rules that apply in such a case are those relating to foreign accrual property income.

Québec's tax legislation will be amended to incorporate the rules of the Canada / United States Tax Convention in this regard, adapting them in accordance with its general principles.

Accordingly, an individual who resides in Québec and who is a shareholder of an American “S corporation” will be able to ask the ministère du Revenu du Québec, which will be able to agree, subject to terms and conditions it considers appropriate, to apply the rules described below for the purposes of Québec income tax, for the period during which this convention is in effect:

— the corporation will be deemed to be a foreign subsidiary controlled by such individual;

— any income of the corporation will be deemed to be foreign accrual property income;

¹ Briefly, an American “S corporation” is a corporation whose shareholders are individuals who are either United States citizens or residents of the United States, and whose income is taxed in the hands of the shareholders as it is earned by the corporation, rather than solely upon distribution to the shareholders. To obtain such status, which is similar to a partnership, an election must be filed with the US tax authorities.
— for the purposes of section 146 of the *Taxation Act*, the portion of the corporation’s income that will be included in calculating the income of such individual will be deemed not to be property income;

— each dividend paid to such individual on a share of the capital stock of the corporation will be excluded from the income of such individual and will have to be deducted in calculating the adjusted cost base, for such individual, of such share.

These changes will apply regarding taxation years beginning after December 31, 1995.

### 7. CLARIFICATION RELATING TO THE ADDITIONAL ALLOWANCE FOR THE TREATMENT OF MINE TAILINGS

Under the *Mining Duties Act* (MDA), a Québec mine operator must pay mining duties corresponding to 12% of his annual profit.

For this purpose, the annual profit or an operator is determined by subtracting from the market value of mineral substances sold or used by the operator, all the operating expenditures incurred to achieve this value, as well as the amounts relating to certain allowances specifically stipulated in the MDA.

In the March 31, 1998 Budget Speech, an additional allowance for the treatment of mine tailings was announced.

Briefly, this allowance is equal to 15% of the capital cost of new assets brought into service after March 31, 1998, in an establishment located in Québec for the purpose of treating mine tailings. In addition, this additional allowance is applicable to the first ten years after the assets used to treat mine tailings are brought into service.

A clarification will be made regarding the period during which this additional allowance may apply. Accordingly, such an allowance may be claimed by a mine operator, regarding an asset brought into service, during the first ten fiscal years of such operator that end after the date when he begins to treat the mine tailings.
This clarification will apply regarding new assets brought into service in an establishment located in Québec for the purpose of treating mine tailings, after March 31, 1998.

8. **STANDARDIZATION OF RULES RELATING TO THE NOTION OF TAXABLE BENEFIT FOR TRAINING EXPENSES PAID BY AN EMPLOYER**

On December 18, 1997, it was announced that Québec’s tax legislation would be amended so that no taxable benefit results from an employee’s participation in a training activity the cost of which is covered by his employer, provided the following conditions are satisfied:

— the employee takes part in the training activity at the request of his employer;

— it is reasonable to consider that the training is of more than negligible benefit to the employer.

On May 7, 1998, Revenue Canada released a document describing new guidelines concerning the taxable nature of training expenses paid by an employer. Briefly, under the new guidelines, the requirement that the training be undertaken at the request of the employer for there not to be a taxable benefit is no longer relevant. In addition, the criteria for determining whether training is of more benefit to the employee than the employer have been eased, in particular by no longer considering whether or not such training leads to a diploma.

Accordingly, except regarding the Québec requirement under which the employee must take part in the training activity at the request of his employer, the streamlining introduced by the federal government is similar to that introduced by Québec. While different terminology is used to describe the streamlining, the situations covered are essentially the same.

---

To standardize the rules applicable at the federal and Québec levels for determining whether or not training expenses paid by an employer constitute a taxable benefit for an employee, the Québec requirement that the employee must take part in a training activity at the request of his employer will be withdrawn. Furthermore, the application date of the changes announced on December 18, 1997 will be adapted.

Hence, these changes will apply as of taxation year 1998. They will also apply to any taxation year of a taxpayer for which the Minister of Revenue may, on the date of publication of this Information Bulletin, again assess the tax payable by this taxpayer, for such year, and issue a new assessment or a supplementary assessment.

9. **BROADENING OF THE CONCEPT OF GIFTS OF PROPERTY HAVING UNDENIABLE ECOLOGICAL VALUE**

Under existing rules, an individual or a corporation which, during a year, donates property having undeniable ecological value to a Québec municipality or to a registered charity whose mission in Québec consists mainly in the conservation of the ecological heritage, can claim a tax credit or deduction, as the case may be, for the fair market value of the property thus donated, up to 100% of the donor’s income for such year.

The portion of a donation which, because of this limit, cannot give rise to such a tax benefit, for a year, can be carried over to the following five years and, in the case of a donation made during the year an individual dies, to the preceding year.

As part of the March 31, 1998 Budget Speech, the cap on the donor’s annual income applicable in regard to charitable donations and gifts to the Crown were standardized, rising from 20% to 75% in the case of charitable donations, and declining from 100% to 75% in the case of gifts to the Crown.

---

4 Briefly, such property is either land which, in the view of the Minister of the Environment and Wildlife, is of undeniable ecological value, or a real servitude burdening such land.

5 For the year in which an individual dies and the year preceding such year, the cap on the donor’s annual income applicable regarding charitable donations rose from 20% to 100%.
The tax legislation will be amended to set at 100% the cap on the annual income of a donor applicable regarding a gift, to the Québec government, of property that qualifies as property having undeniable ecological value.

This change will apply regarding gifts made after March 31, 1998.

10. PRESCRIPTION DRUG INSURANCE PLAN

The Québec government has implemented a general insurance plan which secures fair access for all Quebecers to the drugs they need for their health. The coverage provided by the Régie de l'assurance-maladie du Québec (RAMQ) is funded by an annual premium that is payable when the beneficiary files his tax return. To reflect a taxpayer’s ability to pay, deductions are allowed in calculating the premium payable by the beneficiary of the general prescription drug insurance plan. The amount of these deductions is set, in particular, to exempt from payment of the premium a person or couple who receive the maximum guaranteed income supplement from the federal government.

Furthermore, under the Québec general prescription drug insurance plan, some taxpayers are specifically exempted from the payment of the premium, in particular the taxpayers who have coverage that is at least equivalent to the one offered by Québec's plan.

10.1 Deductions used to calculate the premium for 1998

To comply with the principle according to which the amount of the premium payable to finance the general prescription drug insurance plan must reflect a taxpayer’s ability to pay, adjustments must be made to the amounts of the deductions used to calculate the prescription drug insurance premium for 1998. The amounts of the deductions that will be allowed in the calculation of the premium payable by a beneficiary for 1998 are shown in the following table.
DEDUCTIONS DEPENDING ON FAMILY SITUATION
Prescription drug insurance plan (1998)

<table>
<thead>
<tr>
<th>Family Situation</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 adult, no children</td>
<td>$10 730</td>
</tr>
<tr>
<td>1 adult, 1 child</td>
<td>$17 400</td>
</tr>
<tr>
<td>1 adult, 2 or more children</td>
<td>$20 000</td>
</tr>
<tr>
<td>2 adults, no children</td>
<td>$17 400</td>
</tr>
<tr>
<td>2 adults, 1 child</td>
<td>$20 000</td>
</tr>
<tr>
<td>2 adults, 2 or more children</td>
<td>$22 400</td>
</tr>
</tbody>
</table>

10.2 Exemption of Indians and Inuit

Since January 1, 1997, a person who resides in Québec and is duly registered with the RAMQ, is required to pay a premium to finance the Québec general prescription drug insurance plan.

Indians registered with the Department of Indian and Northern Affairs and Inuit recognized by that department were required to pay this premium from January 1 to March 31, 1997 inclusive, but are exempt from such payment since April 1, 1997.

This exemption is granted to them because they have coverage that is at least equivalent to the Québec general prescription drug insurance plan under a program administered by the Canadian government.

Regulation will be enacted under the Act respecting the Régie de l’assurance-maladie du Québec so that Indians registered with the Department of Indian and Northern Affairs and Inuit recognized by that department are also exempted from payment of a premium under the Québec general prescription drug insurance plan for the period from January 1 to March 31, 1997 inclusive.
11. SPLITTING OF THE MAXIMUM AMOUNT OF THE FAMILY TAX REDUCTION

As part of the March 31, 1998 Budget Speech, it was announced that the maximum amount of the family tax reduction that is applicable in the case of a single-parent family would be $1,195, whether or not such family shares a dwelling. Furthermore, the current rules stipulate the splitting of the maximum amount of the tax reduction when more than one individual is entitled to such reduction in regard to the same dependant.

The tax legislation will be amended to stipulate that these splitting rules will apply to the maximum amounts of $1,195 and $1,500 which apply respectively in the case of a single-parent family and in the case of a couple with children. Accordingly, when two individuals will designate the same dependant in their respective tax return and the two individuals are not spouses at the end of the year, they will have to split the maximum amount applicable in their respective situation for the purposes of calculating the family tax reduction they are respectively entitled to.

This change will apply as of taxation year 1998.

12. NOTION OF TOTAL INCOME FOR THE PURPOSES OF THE PWA BENEFIT

The Parental Wage Assistance program (PWA) is a component of Québec's income security system. This program provides low-income families with at least one dependent child with financial assistance that is tied to the presence of the parents on the labour market, with the goal of increasing the incentive to remain on or return to the labour market.

To determine the basic amount of the PWA benefit, a three-step calculation must be carried out:

— a rate of 32% or of 30%, depending on whether the individual has one or two designated children, applies to the family’s net work income, up to the amount of the family needs scale;

— this amount is reduced by an amount equal to 43% of the portion of the family’s total income that exceeds the amount of the family needs scale (the 43% reduction);
— the balance thus obtained can be reduced by an amount for work income replacement income (the 23 % additional reduction).

Under the existing rules, the notion of total income used in the calculation of the PWA benefit is defined with reference to the definition of the notion of total income, as it applied, before 1998, for the purposes of determining, in particular, the family tax reduction. An adjustment is stipulated regarding support payments paid and received, to include all amounts thus paid and received in the calculation of the PWA benefit, regardless of the fact that these amounts are not considered for income tax purposes.

As of taxation year 1998, the notion of total income that was used, in particular, to determine the amount of the family tax reduction, was replaced with the notion of family income. The family income considered for this purpose is calculated by subtracting the single reduction threshold of $26,000 from the total of the individual’s net income and, if need be, that of his spouse, calculated by applying the rules of the simplified tax system.

A matching change will be made to the rules of the PWA program. Accordingly, for the purposes of the 43% reduction, the notion of total income will refer to the total net income of the individual and, if need be, that of his spouse, calculated by applying the rules of the simplified tax system. In addition, the net income of each designated child, calculated by applying the rules of the simplified tax system, which is in excess of $5,900, will be added in the calculation of the total family income. Finally, an adjustment will still be stipulated regarding support payments paid and received, to include all amounts thus paid and received in the calculation of the PWA benefit, regardless of the fact that these amounts are not considered for income tax purposes.

Furthermore, for the purposes of calculating the 43 % reduction and the 23 % additional reduction, technical changes will be made so that the excess, if any, of the assistance of last resort benefits received in the year, over such benefits reimbursed in the year, will be taken into account.

These changes will apply to the calculation of the PWA benefit as of 1998.
13. **TAX TREATMENT OF ASSISTANCE OF LAST RESORT BENEFITS**

Under existing rules, an individual must include, in calculating his income, any amount, other than a prescribed amount, he receives during the year as a social assistance payment based on an examination of his resources, his needs and his income. Accordingly, the assistance of last resort benefit paid to an individual and which covers his needs and those of the members of his family is taxable, except for the portion of such benefit that relates to amounts covering the essential needs of children.

The assistance of last resort benefit can also include other amounts relating to the presence in the family of children which, under existing rules, are taxable. To maintain the principle of non-taxation of the portion of the assistance of last resort benefit covering the needs of children, a change will be made to the tax legislation to exclude from the calculation of the income of an individual receiving them, any amount included in this benefit regarding the needs of children, whether they are at least 18 years old or not, in particular the following amounts:

- vested rights for single-parent families;
- the increase for children under six years old and born before September 1, 1997;
- the increase for children 12 years old or over.

This measure will apply as of taxation year 1998.

14. **HSF CONTRIBUTION PAYABLE BY CERTAIN INDIVIDUALS RECEIVING A RETROACTIVE PAYMENT FROM THE RRQ**

According to the provisions of the *Act respecting the Régie de l’assurance-maladie du Québec* (ARAMQ), an individual is required to pay, for a taxation year, a contribution to the Health Services Fund (the HSF contribution) equal to 1% of the portion of the income, other than employment income, he receives during the year in excess of $5 000. In particular, indemnities paid by the Régie des rentes du Québec are included in the base for the HSF contribution for a year.
Although such an indemnity or other similar amounts should have been paid to an individual in a year prior to the one in which it is received by the individual, the ARAMQ, contrary to the Taxation Act which stipulates rules regarding the spreading of the taxation of certain retroactive payments, does not allow such an indemnity to be carried back to such prior year for the purposes of calculating the HSF contribution.

The ARAMQ will be modified to provide for spreading rules similar to those stipulated by the Taxation Act. Hence, an individual will be able to calculate the HSF contribution as if the retroactive payment he has received had been received in the years to which it relates, provided this payment is one that is part of the base of the HSF contribution and is of the same nature as the ones targetted by the spreading rules stipulated in the Taxation Act. However, the HSF contribution will still be payable in the year of reception of the retroactive payment.

This change will apply as of a taxation year 1998. It will also apply to any taxation year of a taxpayer for which the Minister of Revenue may, on the date of publication of this Information Bulletin, again determine the HSF contribution payable by such taxpayer, for such year, and issue a new assessment or a supplementary assessment.

15. CLARIFICATION RELATING TO THE TAX TREATMENT OF CLOTHES ACQUIRED BY CERTAIN SELF-EMPLOYED WORKERS

In calculating his business income, a taxpayer may only deduct expenditures incurred to earn income from such business. As a corollary, a taxpayer cannot deduct his personal expenses in calculating his business income.

The Tax Court of Canada has recently ruled that the purchase of certain clothes, by a lawyer, entitled him to a deduction for depreciation in regard to the cost of such clothes. The clothes to which the judgement refers are essentially street clothes.

The tax legislation will be amended to avoid any ambiguity in this matter, and to specify the personal nature of such an expenditure.

However, for greater clarity, this change will not apply regarding clothes acquired by a performing artist working as a self-employed person. The administrative policy of the ministère du Revenu in this regard will accordingly continue to apply.
The application of this change is declaratory. However, it will not apply to cases pending before the courts on the day of publication of this Information Bulletin, or to notices of objection served on the Minister of Revenue no later than such day, when the tax treatment of clothes acquired by a self-employed worker has been the object of an objection no later than such day in such cases or such notices and that the reason for the objection are items covered by this change.

16. POSSIBILITY OF ISSUING AN ASSESSMENT FOLLOWING AN ASSESSMENT ISSUED UNDER FEDERAL TAX LEGISLATION

In general, the normal period during which the Minister of Revenue can again determine income tax and tax on capital payable, if any, by a taxpayer, is three or four years, depending on the taxpayer concerned. However, this period is extended in certain situations, in particular when this is necessary to ensure correlation with the assessment issued for a prior taxation year of the taxpayer.

This is also the case when a corporation or a mutual fund trust is assessed or newly assessed under federal tax legislation, in which case the Minister of Revenue has a period of 365 days following the date of such assessment to make a new assessment to ensure correlation with the assessment issued by the federal tax authorities.

On December 18, 1997, it was announced that in spite of the expiry of the assessment period otherwise stipulated, the Minister of Revenue will be able to issue a new assessment or a supplementary assessment, for a taxpayer, when that is necessary to ensure correlation with the assessment issued for the taxpayer by another province. However, such new assessment or such supplementary assessment, as the case may be, must be issued by the Minister of Revenue no later than 365 days after the date on which the assessment is issued by the other province.

Québec’s tax legislation will be amended to standardize the field of application of the provisions relating to the issuing of an assessment correlative to an assessment issued by another jurisdiction. Accordingly, the possibility of issuing a new assessment to ensure correlation with an assessment issued by federal tax authorities will apply to any taxpayer, rather than just a corporation or mutual fund trust.

___________________________
This change will take effect on the date the bill giving effect to it is assented to and will apply regarding assessments issued under federal tax legislation after the date of publication of this Information Bulletin.

17. HARMONIZATION WITH FEDERAL TAX LEGISLATION AND REGULATIONS

17.1 Income tax measures

In recent months, the federal government has released proposed changes to the Income Tax Act and the Income Tax Regulations which are briefly described below.

Proposed additions to the list of prescribed stock exchanges outside Canada

On July 22, 1998, the Secretary of State for International Financial Institutions, on behalf of the Minister of Finance of Canada, issued a news release announcing that he intended to recommend additions to the list of prescribed stock exchanges for the purposes of certain provisions of the Income Tax Act.

Revised legislative amendments concerning mortgage investment corporations and investment corporations

On August 14, 1998, the Secretary of State for International Financial Institutions, on behalf of the Minister of Finance of Canada, issued a news release containing a revised version of proposed legislative amendments to the Income Tax Act affecting the tax treatment of mortgage investment corporations and investment corporations.

---

7 Department of Finance Canada news release 98-070.
8 Department of Finance Canada news release 98-078.
It was announced in the March 31, 1998 Budget Speech that Québec’s tax legislation would be amended to incorporate, with adaptations based on its general principles, the initial federal measures in this regard.

**Change to the tax rules governing lease financing**

On August 18, 1998, the Minister of Finance of Canada issued a news release\(^9\) announcing that the federal government intended to propose changes to the income tax rules governing leasing property so that they cannot be applied to enable a tax-exempt entity which cannot use the applicable deductions, to transfer them to a taxable entity which can use them.

Québec’s tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the measures announced by the federal government. However, the changes will only be adopted after the federal legislation is assented to or the federal regulations arising therefrom are adopted, taking into account technical amendments that might be made prior to its approval or its adoption, and will be applicable at the same dates as they are for federal income tax purposes.

On October 27 1998, the Minister of Finance of Canada released a draft income tax legislation\(^10\). That draft legislation reflects changes made to several proposals announced in the February 1998 federal budget, regarding which it has been previously announced that Québec’s tax legislation will be harmonized. However, clarifications need to be announced regarding two of the proposed changes.

Under the federal draft legislation, the $1,000 emergency service volunteer deduction will not be reduced by income. However, this draft legislation stipulates that this deduction will not be available in respect of an amount received from a public authority where the taxpayer provides the same or similar services, other than a volunteer, to the public authority.

\(^9\) Department of Finance Canada news release 98-080.  
\(^10\) Department of Finance of Canada news release 98-105.
This draft legislation also proposes that expenses made for the training of an individual in connection with care to be provided for a related person will give rise to the tax credit for medical expenses without the necessity to obtain a medical certificate.

The Québec’s tax legislation will be amended to incorporate these two proposed changes. However, these harmonization measures will only be adopted after the approval of any federal legislation arising from that draft legislation, taking into account technical amendments that might be made prior to its approval. They will apply on the same dates as for the purposes of federal income tax.

17.2 Proposals concerning retirement savings and pension adjustment reversals

On June 26, 1998, the Minister of Finance of Canada issued a news release\(^{11}\) containing proposed amendments to the *Income Tax Regulations* that are further to the retirement savings measures announced in the federal Budget Speech of February 18, 1997.

On October 2, 1998, the Minister of Finance of Canada and the Minister of National Revenue issued a news release\(^{12}\) announcing measures to ease the implementation of the pension adjustment reversal (PAR) proposals announced in the federal Budget Speech of February 18, 1997.

It was announced in the March 25, 1997 Budget Speech, that Québec’s tax legislation and regulations would be amended to incorporate, with adaptations based on their general principles, the measures relating to the implementation of the pension adjustment reversal.

More specifically, the changes announced on June 26 and October 2, 1998 by the federal authorities will also be incorporated into Québec’s tax system, since it refers directly to provisions of the federal tax system to determine the deductible amount regarding an individual’s contributions to a registered retirement savings plan.

---

\(^{11}\) Department of Finance Canada news release 98-061.

\(^{12}\) Department of Finance Canada news release 98-098.
17.3 Measures concerning the goods and services tax and the harmonized sales tax

On July 29 and August 7, 1998, the Minister of Finance of Canada issued news releases containing proposed amendments to the *Excise Tax Act* concerning the goods and services tax (GST) and the harmonized sales tax.

In accordance with the principle of substantial harmonization of the Québec sales tax (QST) and the GST systems, Québec's tax system will be generally harmonized with the federal tax system, subject to Québec’s particularities and taking the provincial context into account.

**Measures retained**

Changes will accordingly be made to the QST system to incorporate, with adaptations based on its general principles, the federal measures relating to:

— management or administrative services provided to investment plans;

— the oil, gas and electricity industries.

As for the measure providing a rebate of GST relating to specially-equipped vehicles for persons with disabilities, announced by the Minister of Finance of Canada on April 3, 1998, it should be noted that it is similar to the rebate measure of QST announced in this regard by the Québec Minister of Finance in the March 31, 1998 Budget Speech. Considering the similarity of the two measures, all the application details of the GST rebate described in news release 98-075 will be incorporated in the QST system.

---

13 Department of Finance Canada news releases 98-072 and 98-075.
14 Department of Finance Canada news release 98-036.
Application dates

The measures retained will be adopted only after any federal legislation arising from news releases 98-072 and 98-075 is assented to, taking into account any technical changes that could be made before assent is given.

The measures relating to management or administrative services provided to investment plans and those concerning the oil, gas and electricity industries will be applicable on the same dates as those stipulated in the federal tax system, except the measures applicable since January 1, 1991 which, in the QST system, will be effective as of July 1, 1992.

The application details of the measure providing a rebate of QST relating to specially-equipped vehicle for persons with disabilities will become applicable:

— in the case of the supply or bringing into Québec of a vehicle that is equipped with an appliance designed exclusively to assist in placing a wheelchair, regarding such vehicle supplied or brought after December 10, 1992 if the recipient is an individual and after April 23, 1996 if the recipient is a person other than an individual;

— in the case of the supply or bringing into Québec of a vehicle that is equipped with an auxiliary driving control to facilitate the operation of the vehicle by an individual with a disability, on the same dates as those stipulated in the federal tax system;

— in the case of the bringing into Québec of a vehicle on which a service was carried out outside Québec consisting in specially modifying it for a person with a disability, on the same dates as those stipulated in the federal tax system.