

Measures designed to ensure the continuity of Capital régional et coopératif Desjardins and encourage the growth of the Fonds de solidarité des travailleurs du Québec (F.T.Q.)

This information bulletin describes measures designed to ensure the continuity of Capital régional et coopératif Desjardins and encourage the growth of the Fonds de solidarité des travailleurs du Québec (F.T.Q.).

It also details the changes made to the SME Growth Stock plan and to the refundable tax credit for education savings.

Lastly, it sets out the 2007 exemption threshold for the calculation of the prescription drug insurance premium, makes certain changes to the tobacco tax system pertaining to cigars, extends the application of the lodging tax to the Duplessis tourism region, and specifies the deadline for making optional contributions to the Québec Pension Plan.

For information on the issues dealt with in this information bulletin, contact the Secteur du droit fiscal et de la fiscalité at 418 691-2236.

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1. MEASURES TO SECURE THE CONTINUITY OF CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS.....	3
2. TEMPORARY ADJUSTMENT TO THE INVESTMENT REQUIREMENT OF THE FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC.....	6
3. ADJUSTMENT RELATING TO ELIGIBILITY FOR THE SME GROWTH STOCK PLAN.....	7
4. INCREASE IN EXEMPTIONS GRANTED FOR SETTING PREMIUMS UNDER QUÉBEC'S PRESCRIPTION DRUG INSURANCE PLAN.....	9
5. SIMPLIFICATION OF THE FORMALITIES REQUIRED TO OBTAIN THE QUÉBEC EDUCATION SAVINGS INCENTIVE	10
6. CHANGES TO THE TOBACCO TAX SYSTEM REGARDING CIGARS.....	11
7. APPLICATION OF THE TAX ON LODGING IN THE DUPLESSIS TOURIST REGION	14
8. DEADLINE FOR EMPLOYEES TO MAKE AN OPTIONAL CONTRIBUTION TO THE QUÉBEC PENSION PLAN	15
APPENDIX 1	17
APPENDIX 2	29

1. MEASURES TO SECURE THE CONTINUITY OF CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS

Capital régional et coopératif Desjardins (CRCD) is an investment corporation whose mission is to marshal venture capital for the resource regions of Québec and cooperatives.

Since the corporation was founded in 2001, the government has supported its growth by allowing a tax benefit to individuals who purchase its shares. This tax assistance consists of a non-refundable tax credit.

It is currently stipulated that the paid-up capital of the company's issued and outstanding shares can grow by \$150 million per capital-raising period,¹ reaching a maximum of \$1 325 million on February 28, 2011, i.e. the date on which the last capital-raising period for which the company is authorized to raise tax-advantaged capital is to end.

In only six years, CRCD has achieved a significant position in Québec's venture capital industry, especially with small and medium-size enterprises (SMEs) in the regions. Through its sustained presence in the resource regions, CRCD helps stimulate regional economic development. Accordingly, over the years, it has become indispensable for regional SMEs that need capital to reach financial self-sufficiency and maturity.

Since CRCD is meant to be a significant partner in the government's regional strategy, various changes will be made to the government assistance earmarked for the corporation's mission so that it can continue to have the funds needed to play its role as investor with SMEs in the regions, even beyond February 28, 2011.

Apart from the fact that, as of March 1 of each year after 2010, new capital-raising periods can begin, the changes will concern the calculation of the tax credit allowed individuals who purchase shares of CRCD, the corporation's capitalization and the investment requirement applicable to it.

□ Increase in tax assistance allowed for purchasing CRCD shares

Currently, an individual² can claim, for a given taxation year, a non-refundable tax credit calculated on the basis of the issue price he paid to purchase, as first acquirer, CRCD shares (including a fraction of a share) during the period starting on March 1 of such year and ending the last day of February of the following year, but before March 1, 2011.

The tax credit, calculated by applying a rate of 35% to the first \$2 500 attributable to the issue price of shares acquired during a given capital-raising period, provides acquirers with a tax reduction of up to \$875 per year.

1 i.e. each period beginning March 1 of a year and ending the last day of February of the following year.

2 Other than a dealer acting in his capacity as intermediary or firm underwriter.

Moreover, where a share is bought back or purchased by agreement by CRCD less than seven years after the day it was issued, the person who purchased the share, hereunder referred to as the “buyer”, or the person to whom such share was passed on by succession, must pay, for the taxation year during which the buy-back or purchase is made, a special tax relating to the recovery of the tax credit previously allowed with regard to the share.

This special tax is equal to the amount obtained by applying the proportion attributable to the number of days the share was not held³ to the lesser of the price paid for the buy-back or purchase by agreement of the share and 35% (50% if the share was acquired before March 24, 2006) of the amount paid by the buyer to acquire the share.

■ Increase in the rate of the tax credit and the maximum amount

Regarding shares acquired after the day of publication of this information bulletin, the rate applicable for the purposes of calculating the tax credit will rise from 35% to 50%.

In addition, for the capital-raising period ending February 29, 2008 and for subsequent capital-raising periods, the maximum amount attributable to the issue price of shares acquired during a given capital-raising period will rise from \$2 500 to \$5 000.

Accordingly, an individual who acquires CRCD shares may obtain tax assistance of up to \$2 500 per year as of taxation year 2007.

■ Adjustment to the special tax

To reflect the increase in the rate applicable for the purposes of calculating the tax credit for the acquisition of CRCD shares, the special tax relating to the recovery of the tax credit will be changed to stipulate that the rate of 50% applicable to the amount paid by the buyer to acquire, prior to March 24, 2006, a share that has been bought back or purchased by agreement by CRCD will also apply to a share acquired after the day of publication of this information bulletin.

□ Capitalization of CRCD

To control the tax expenditure attributable to the government’s participation in the continuity of CRCD’s activities, while allowing the company to have the funds needed to achieve its mission, new limits will be imposed on the capital it can collect for a capital-raising period ending after the date of publication of this information bulletin.

3 i.e. the proportion obtained by dividing, by 2 556, the excess of 2 556 over the number of days included in the period beginning the issue day of the share and ending the day of the buy-back or the purchase by agreement of such share.

Accordingly, CRCD will be authorized to collect, for its current capital-raising period, ending on February 29, 2008, a maximum amount of \$100 million on account of capital.

For a capital-raising period beginning after February 29, 2008, CRCD may collect a maximum amount of \$150 million per capital-raising period, as long as the company has not reached, for the first time, at the end of a capital-raising period, at least \$1 billion on account of paid-up capital regarding shares and fractions of shares issued and outstanding.

As of the capital-raising period following the one at the end of which CRCD first reaches capitalization of at least \$1 billion, CRCD may collect, per capital-raising period, the lesser of \$150 million and the amount corresponding to the reduction in paid-up capital attributable to all the shares and fractions of shares bought back or purchased by agreement by CRCD during the preceding capital-raising period.

In the event that, at the end of a given capital-raising period, the amount of paid-up capital regarding all the shares and fractions of shares issued by CRCD during such period exceeds the maximum amount it is authorized to collect for such period, CRCD will have to pay, no later than the May 31 following the end of such period, a special tax.

This special tax will be, for a given capital-raising period, equal to 50% of the excess of paid-up capital regarding all the shares and fractions of shares issued by CRCD during the capital-raising period over the maximum amount it is authorized to collect for such period.

□ Easing of the investment requirement

Since CRCD's financing is made easier by granting a tax benefit, an investment requirement was included in its act of incorporation to ensure, in particular, that the funds collected are used as a financing tool contributing to the development of Québec entities.

This requirement stipulates that, for each fiscal year, CRCD's eligible investments must represent, on average, at least 60% of its average net assets for the preceding fiscal year, and a portion representing at least 35% of such percentage must be made in eligible cooperatives or in entities located in the resource regions of Québec.⁴

4 I.e. Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie-Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay-Lac-Saint-Jean.

To that end, the investments made by CRCD otherwise than as first acquirer for the acquisition of securities issued by an eligible entity,⁵ except to the extent that they account for more than one third of aggregate investments made by CRCD as first acquirer in such entity,⁶ are, up to a certain limit,⁷ eligible investments if they include no surety or hypothec.

With a view to enabling CRCD to intervene more easily with Québec entrepreneurs who wish to dispose of their participation in their business, the rule limiting investments made by CRCD otherwise than as first acquirer for the acquisition of securities issued by an eligible entity to one third of aggregate investments made in such entity as first acquirer will be eliminated regarding investments made after the day of publication of this information bulletin.

2. TEMPORARY ADJUSTMENT TO THE INVESTMENT REQUIREMENT OF THE FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC

Since the creation, in 1983, of the Fonds de solidarité des travailleurs du Québec (F.T.Q.), the government has supported its growth by enabling it to raise capital enjoying a tax assistance. This tax assistance consists of a non-refundable tax credit allowed taxpayers who become shareholders of the Fund.

Since the Fund's capitalization is made easier by granting a tax benefit, an investment requirement was included in its act of incorporation to ensure, in particular, that the funds collected are used as a financing tool contributing to the development of Québec entities.

Accordingly, for each fiscal year, the eligible investments of the Fund – which include no surety or hypothec – must account for, on average, at least 60% of the average net assets of the Fund for the preceding fiscal year.

Briefly, the average eligible investments for a given fiscal year correspond to the amount obtained, by dividing by two, the aggregate of the eligible investments of the Fund at the beginning of the fiscal year, the eligible investments of the Fund at the end of such fiscal year and the amount of recognized disinvestments for the fiscal year and those recognized for the preceding fiscal year.⁸

5 An eligible entity includes an eligible cooperative as well as a corporation or partnership that carries on an active business, the majority of whose employees reside in Québec and whose assets are less than \$100 million or net equity is less than \$50 million, other than an eligible cooperative or corporation or partnership all of whose activities consist mainly in making investments.

6 In this regard, a dealer acting in his capacity as intermediary or firm underwriter is not considered as first acquirer of securities.

7 Briefly, for a given fiscal year, the aggregate of investments eligible otherwise than as first acquirer and of eligible reinvestments cannot exceed 20% of CRCD's net assets at the end of the preceding fiscal year.

8 The amount of recognized disinvestments for a given fiscal year corresponds to the excess, over 2% of the Fund's average net assets for the preceding fiscal year, of the total of the eligible investments previously made by the Fund that were disinvested during the fiscal year.

Moreover, in the event that, during a given fiscal year, the Fund fails to satisfy its investment requirement, it will be systematically limited in its capacity to issue shares during the following fiscal year.

Although the Fund is in excellent financial health, it has, for some time, had difficulty meeting its investment requirement mainly because of losses in value arising from the bursting of the stock market bubble early this decade and the level of disinvestments. Since then, the Fund has been unable, despite sustained efforts, to achieve a sufficient level of investment to satisfy its investment requirement. The lag that has accumulated is becoming increasingly difficult to make up in a single year, not to mention that Québec's economy would certainly be unable to absorb such a large amount of capital in so little time.

Under the circumstances, although the Fund has not reached its investment requirement for the fiscal year ending May 31, 2007, the penalty limiting its issue capacity for the fiscal year beginning June 1, 2007 and ending May 31, 2008 will not be imposed.

In addition, for the Fund's current fiscal year and for the next four fiscal years, a temporary adjustment will be made to the amount of average eligible investments used for the purposes of calculating the investment requirement imposed on the Fund. This adjustment, which will be added to the amount of average eligible investments otherwise determined, will correspond, for each of the fiscal years concerned, to the amount shown in the following table.

Temporary adjustment to average eligible investments

	Fiscal year		Amount of adjustment
beginning		Ending	
June 1, 2007		May 31, 2008	\$500 million
June 1, 2008		May 31, 2009	\$450 million
June 1, 2009		May 31, 2010	\$400 million
June 1, 2010		May 31, 2011	\$300 million
June 1, 2011		May 31, 2012	\$200 million

3. ADJUSTMENT RELATING TO ELIGIBILITY FOR THE SME GROWTH STOCK PLAN

The SME Growth Stock plan (Accro PME) is a capitalization assistance plan designed to make it easier for eligible small public corporations, or those on the way to becoming eligible, to raise permanent capital by allowing shareholders of these corporations, within the limits stipulated by the legislation, to deduct, in calculating their taxable income, the acquisition cost of treasury shares acquired under the plan.

To qualify as an eligible issuing corporation under this plan, a corporation must satisfy various requirements stipulated under the legislation. Since the Accro PME plan is geared to corporations in a specific market segment, one of these requirements deals with the size of the eligible issuing corporation (size criterion). According to this requirement, the value of the assets of an eligible issuing corporation must not exceed \$100 million, calculated on a consolidated basis with the assets of any corporation associated with it.

The concept of associated corporation is used for various purposes in the tax legislation. Briefly, the notion of control is central to the concept under which corporations that maintain, in law or in fact, a certain proximity among themselves can be considered as being part of the same economic group. For example, two corporations are associated with each other where one controls the other.

Moreover, the legislation stipulates various rules to determine whether corporations are associated with each other. In particular, they include a rule under which, briefly, a person's option to acquire shares of a corporation, or a person's right to require a corporation to buy back shares owned by other persons, must be treated as though the option or the right, as the case may be, had been exercised (rights or options rule).

Accordingly, for example, to determine whether two corporations are associated with each other, the theoretical control of each corporation must first be established considering, in particular, that the reciprocal conditional options the shareholders granted themselves mutually by means of a shareholder agreement, have been exercised.

In the field of corporate financing, it often happens that a public financing on the equity markets is preceded by a private financing with a large investor, a partner with a strategic interest, for instance. Moreover, this type of financing is often only temporary since the objective of the private investor usually is to accompany the corporation up to the point where it is ready to make a public offering on the equity markets. Such public financing then allows the large investor to liquidate its initial investment.

Moreover, to protect its investment, the large investor will often require that a shareholder agreement or covenant be put in place restricting the transfer of shares, in particular through provisions granting each shareholder conditional rights or options regarding the shares of the issuing corporation. In addition, it often happens in this type of financing that such conditional rights or options lapse at the time of an initial public offering.

As mentioned above, where the application of the rights or options rule results in a corporate association between an investor and an issuing corporation, the valuation of the size of the issuing corporation to determine its eligibility for the Accro PME plan is made by adding the value of the assets of the investor to the value of the assets of the issuing corporation, regardless of the reasons for or length of the association.

In view of the objective of the Accro PME plan and the termination of the corporate association at the time of the public offering because of the lapsing of the rights or options, therefore at the time of the effective participation of the issuing corporation in the plan, there is reason to confine the application of the rights or options rule regarding the valuation of the size of an issuing corporation under the Accro PME plan.

More specifically, an exception will be added to the legislation so that, in the course of examining the eligibility of an issuing corporation for the Accro PME plan, the value of the assets of the issuing corporation will be determined without taking into account the value of the assets of corporation with which the issuing corporation is associated as a result of the application of the rights or options rule.

However, this exception will only apply provided that the Minister of Revenue concludes, first, that the situation of corporate association results exclusively from the application of the rights or options rule and, second, that the provisions of the agreement or covenant granting the rights or options at the source of the corporate association lapse at the time the issuing corporation makes a public offering under the Accro PME plan.

This change will apply regarding a public offering of shares for which the receipt for the final prospectus, or the filing exemption, as the case may be, is granted after the day of publication of this information bulletin.

4. INCREASE IN EXEMPTIONS GRANTED FOR SETTING PREMIUMS UNDER QUÉBEC'S PRESCRIPTION DRUG INSURANCE PLAN

The basic prescription drug insurance plan introduced by the Québec government ensures all Quebecers fair access to the medication required by their state of health. Coverage under this plan is provided by the Régie de l'assurance maladie du Québec (RAMQ), or by insurers transacting group insurance or administrators of private-sector employee benefit plans.

As a general rule, persons not insured by the private sector throughout a year must, when filing their income tax return for such year, pay a premium to fund Québec's prescription drug insurance plan. To make allowance for households' ability to pay, the premium payable for a year is determined on the basis of family income. However, to improve the fairness of the system by ensuring that no person pays a premium until his income reaches a certain threshold, deductions are allowed in the calculation of family income. Since the introduction of Québec's prescription drug insurance plan, these deductions, which vary with household composition, have been adjusted annually in particular to protect households' purchasing power.

Accordingly, to maintain the principles underlying the determination of the amount of the premium payable to Québec's prescription drug insurance plan, the amount of each of the deductions currently allowed to set the threshold from which premiums become payable will be adjusted for 2007.

The following table shows the amount of each of the deductions allowed for 2007 according to household composition.

Québec's prescription drug insurance plan (2007)
Deductions varying with household composition
(Dollars)

Household composition	Amount of the deduction
1 adult, no children	13 470
1 adult, one child	21 830
1 adult, 2 or more children	24 765
2 adults, no children	21 830
2 adults, one child	24 765
2 adults, 2 or more children	27 470

5. SIMPLIFICATION OF THE FORMALITIES REQUIRED TO OBTAIN THE QUÉBEC EDUCATION SAVINGS INCENTIVE

As part of the 2007-2008 Budget Speech, it was announced that to further encourage Québec families to save for their children's education, beginning in their infancy, a Québec education savings incentive, similar to the Canada education savings grant, would be paid, as of taxation year 2007, in the form of a refundable tax credit to a trust governed by a registered education savings plan (RESP) one of whose beneficiaries is a child residing in Québec.

This refundable tax credit allows families that contribute to an RESP after February 20, 2007 to obtain government assistance of up to \$3 600, on a cumulative basis, per child, i.e. 50% of the grant paid under the *Canada Education Savings Act*.

To simplify the task of RESP managers, it was announced that, to obtain the Québec education savings incentive for a year, managers would only have to submit one request regarding each RESP they managed for the year. In addition, it was stipulated that the amount that could be requested for a year regarding an RESP would be equal to 50% of all the amounts attributable to contributions made in the year that were paid on account of the Canada education savings grant.⁹

In the course of the implementation of the Québec education savings incentive, Revenu Québec, which is responsible for the administration of this measure, noted that it was difficult to reconcile management of the Canada education savings grant with the management of a tax incentive determined on the basis of contributions paid during a year.

⁹ On condition that, for 2007, only the portion of the aggregate of the amounts paid on account of the Canada grant that is attributable to a contribution paid into an RESP after February 20, 2007, other than an amount relating to accumulated rights, can be taken into consideration.

It became apparent that the payment of the Canadian grant regarding a given contribution is part of a continuous process of financial transactions between the federal government and RESP managers (payment, correction, refund, etc.) in which all the Canadian grants relating to contributions paid into a plan are combined. Accordingly, considerable efforts are required to reconstitute the amount of the Canadian grant paid regarding a given contribution.

Therefore, to streamline the task of RESP managers, they will no longer be required to identify, in the request they must send to Revenu Québec to obtain the Québec education savings incentive, the total amount received for a year on account of the Canadian grant that is attributable to the contributions paid into an RESP during that year. Henceforth, RESP managers will no longer have to indicate the amount of contributions paid into an RESP during a year and after February 20, 2007. Revenu Québec, using this information, will determine the amount of the Québec education savings incentive that may, as of taxation year 2007, be allowed for a year regarding an RESP.

This new approach implies that rules similar to those that govern the payment of the Canada education savings grant will have to be incorporated into Québec's tax system, adapted to the method of payment of the Québec education savings incentive.

For greater clarity, such incorporation, while it transforms the Québec education savings incentive into a totally autonomous measure, will not reduce the tax assistance announced in the 2007-2008 Budget Speech since the rate applicable regarding a contribution paid into an RESP during a year that will be used to calculate the Québec education savings incentive will be maintained at 50% of the rate applicable to such contributions for the purposes of calculating the Canada education savings grant.

However, besides adding various technical details to the measure announced in the 2007-2008 Budget Speech, this incorporation will require adapting or replacing certain of the details stipulated therein. Appendix 1 of this information bulletin provides a thorough description of the technical details arising from this incorporation.

6. CHANGES TO THE TOBACCO TAX SYSTEM REGARDING CIGARS

Like many consumption taxes in Québec and other provinces of Canada, the tobacco tax is subject to a pre-collection system, which greatly simplifies its administration while reducing the risk of bad tax debts. Under this kind of system, amounts on account of the tobacco tax are collected by collection officers, namely importers, manufacturers and wholesalers of tobacco products, at a stage prior to the retail sale of these products. Accordingly, the responsibility for remittance to Revenu Québec of the amounts to be collected on this account lies with a limited number of mandataries, rather than with all the retailers offering tobacco products to consumers.

However, it appears that this pre-collection system, as currently applied to cigars, is no longer adequate since it is vulnerable to a tax evasion stratagem employed by certain mandataries. Besides depriving the government of amounts owed to it, this situation heavily penalizes businesses that do not make use of such a stratagem and compete directly with those that do use it.

Consequently, the tobacco tax system pertaining to cigars will be changed.

Essentially, the tobacco tax applicable to these products, whose rate will remain at 80%, will be calculated on the “taxable price” of a cigar. Moreover, pre-collection of the amount on account of this tax applicable to a cigar will be assigned solely to the collection officer who sells the cigar at the wholesale level to a retail vendor.

❑ Taxable price of a cigar

The “taxable price” of a cigar will be defined as the sale price paid for a cigar by its retail vendor, increased by 20%.

However, if a cigar is sold at the retail level by an importer or a manufacturer, the “taxable price” of the cigar will be the sale price paid by the consumer for the cigar, without any increase.

Despite the preceding, in the case where the Minister of Revenue is of the opinion that the sale price of a cigar is below a reasonable wholesale price for the market, he may set the sale price of the cigar for the purposes of the tobacco tax regarding it.

For greater clarity, the tobacco tax at the rate of 80% must be calculated on the taxable price of any cigar, including a cigar sold at a retail price of 15 cents or less per unit.

❑ Pre-collection and remittance of the tobacco tax applicable to cigars

Only a collection officer who sells a cigar at the wholesale level to a retail vendor will be a mandatory of Revenu Québec for the pre-collection of the tobacco tax applicable to such cigar. Such collection officer will therefore have to pre-collect from the retail vendor an amount on account of such tax, calculated on the taxable price of the cigar, and then remit it to Revenu Québec.

Accordingly, no amount on account of the tobacco tax must be pre-collected by a collection officer on the sale of a cigar at the wholesale level that he makes to another collection officer.

For greater clarity, while no amount on account of tobacco tax must be pre-collected on the sale at the wholesale level of a cigar by one collection officer to another, such sale must nonetheless be included in the reports and statements to be filed monthly with Revenu Québec.

❑ Itemized invoice

A collection officer who sells cigars at the wholesale level to a retail vendor must provide the latter with an itemized invoice of the transaction. In addition to the date of sale and the names and addresses of the parties to the transaction, the invoice must clearly indicate, for each cigar, its sale price, its taxable price and the amount on account of the tobacco tax pre-collected or to be pre-collected regarding it. Such invoice must also show the quantity of each type of cigar sold and any other information prescribed by the Minister of Revenue.

The retail vendor must preserve this itemized invoice because this document will be required to support the information contained in the registers he is required to keep under the fiscal legislation.

❑ Security

Where he is of the view that circumstances justify it, the Minister of Revenue may require of a collection officer who sells cigars at the wholesale level to a retail vendor, as a condition of issue or continuance in force of the collection officer's permit he must hold, security for a value, in a form and at terms and conditions he shall determine.

❑ Application date

These changes to the tobacco tax system will apply to cigars sold at the wholesale level by a collection officer after January 31, 2008, as well as to those sold at the retail level by an importer, manufacturer or wholesaler after that date.

❑ Taking of inventory

Collection officers who have not concluded an agreement with Revenu Québec and who sell cigars regarding which the tobacco tax has been or should have been pre-collected, will have to draw up an inventory of all such cigars they have in stock at midnight, January 31, 2008 to determine the amount, if any, corresponding to the difference between the tax applicable according to the rules in effect before February 1, 2008 and that applicable according to the new rules, in order to obtain a refund of this amount if it is positive, or remit it if it is negative. The same applies for collection officers who have concluded an agreement with Revenu Québec and who sell cigars regarding which the tobacco tax has been remitted in advance or has not yet been remitted.

The collection officers required to draw up an inventory will have to use for that purpose the form provided by Revenu Québec. For greater clarity, cigars acquired by a person before midnight, January 31, 2008 but not yet delivered to him, are to be included in his stock.

7. APPLICATION OF THE TAX ON LODGING IN THE DUPLESSIS TOURIST REGION

The government has set up a tourist partnership fund to strengthen and sustain tourist promotion and development in Québec. The fund is financed in part by a tax on lodging applicable to each accommodation unit rented in a sleeping-accommodation establishment located in a Québec tourist region which requests the government accordingly through its regional tourist association (RTA).

RTAs that want the lodging tax to apply in their territory may choose between the imposition of a specific tax of \$2 per overnight stay or the imposition of an *ad valorem* tax of 3% of the price of each overnight stay.

The revenue generated by this tax, after deducting the costs of its administration, are remitted to the participating regions and the amounts thus remitted are used in accordance with the terms and conditions agreed to in a memorandum of understanding between the ministère du Tourisme and the RTAs of these participating regions. Currently, the tax is applicable in 18 of the 22 Québec tourist regions, namely Montréal, Laval, Québec, Charlevoix, Outaouais, Saguenay-Lac-Saint-Jean, Cantons-de-l'Est, Chaudière-Appalaches, Centre-du-Québec, Gaspésie, Bas-Saint-Laurent, Lanaudière, Mauricie, Abitibi-Témiscamingue, Montérégie, Laurentides, Manicouagan and Baie-James tourist regions.

Following requests submitted by the RTA of Duplessis, the specific tax on lodging of \$2 per overnight stay will apply in the Duplessis tourist region as of January 1, 2008.

Accordingly, the tax will be applicable regarding any accommodation unit rented in a sleeping-accommodation establishment located in the Duplessis tourist region, when the accommodation unit is billed by the operator of the establishment after December 31, 2007 for occupation after that date.

However, the operator of a sleeping-accommodation establishment will not have to pre-collect the tax in respect of accommodation units billed to a travel intermediary when the price of these units has been set under an agreement reached before January 1, 2008 between the operator and the intermediary, and occupation by tourist customers takes place between December 31, 2007 and October 1, 2008.

The territorial entities included in the Duplessis tourist region are listed in appendix 2.

8. DEADLINE FOR EMPLOYEES TO MAKE AN OPTIONAL CONTRIBUTION TO THE QUÉBEC PENSION PLAN

The Québec Pension Plan (QPP) and the Canada Pension Plan (CPP) are public plans designed to partially replace, at retirement, in the event of disability or death of a worker, the income from his work. The two plans, which are very similar regarding benefits, contributions and eligibility conditions, are compulsory participation plans that cover almost all workers, whether employees or self-employed.

By granting benefits established on the basis of the pensionable earnings registered in the name of each worker that they cover, up to a certain limit, these plans provide workers and their families with basic financial protection.

As a general rule, an employee who does covered work with an employer must, if his work is done in Québec, pay a contribution to the QPP by means of source withholdings on the salary paid to him by such employer. This contribution, at the rate of 4.95% in 2007, is payable for any portion of the pensionable salary and wages paid by the employer between the amount of the personal exemption (\$3 500) and the maximum pensionable earnings of the employee for the year (\$43 700 in 2007).

In addition, subject to the maximum of his contributory earnings for a year (\$40 200 in 2007) and the amount of his personal exemption, an employee can pay, for such year, an optional contribution to the RRQ, calculated on the basis of the contribution rate applicable for the year (9.9% in 2007), on the portion of his pensionable salary and wages¹⁰ for the year on which no contribution has been deducted at source by an employer¹¹ and, under certain conditions, on the portion of the amount that would be included in his pensionable salary and wages for the year if the work he did in the year is recognized excluded work.¹²

In this regard, the *Act respecting the Québec Pension Plan* allows, in some cases, an employee to request to make an optional contribution for a given year more than four years after the end of such year, unlike the *Canada Pension Plan* that requires such a request to be made no later than June 15 of the second year following the given year.

10 The pensionable salary and wages of a worker for a year generally corresponds to the income he earns for the year from covered work.

11 This portion may cover income replacement insurance from an insurance plan to which an employer made a contribution or taxable benefits paid in kind (for instance, stock options).

12 For example, work done in Québec for an employer who does not have an establishment in Québec is recognized excluded work, as is work done in Québec for an employer that is another government or an international organization, where the employer has not signed an agreement or arrangement to make such work covered work. In addition, work done in Québec by an Indian where the income from the work is located on a reserve and his employer has not elected to make this work covered work, is recognized excluded work.

Because of the length of time allowed an employee to request to make an optional contribution to the RRQ, this plan is much more vulnerable than the CPP to the phenomenon of anti-selection.¹³ The longer the time allowed to request to make an optional contribution, the greater the risk that an employee (or his legal representatives) will ask to make such a contribution solely to meet the eligibility conditions for the payment of a benefit or to obtain a higher benefit.

Accordingly, to protect the integrity of the QPP, the *Act respecting the Québec Pension Plan* will be amended, as of 2007, to stipulate that an employee's request to make an optional contribution must be made, for a given year, no later than June 15 of the second year following the given year, i.e. the same deadline as imposed by the *Canada Pension Plan*.

13 In the context of insurance, anti-selection is the tendency of persons with a higher-than-average risk to seek insurance.

Appendix 1

Technical details of the payment of the Québec education savings incentive

□ Request for the Québec education savings incentive

A trust governed by an education savings plan which, at the end of a given taxation year, resides in Québec¹⁴ may, upon request, obtain a refundable tax credit (the “Québec education savings incentive”) for the year regarding each individual who is, at the end of the year, a beneficiary of the plan residing in Québec.¹⁵

In order for a trust to benefit from this incentive for taxation year 2007, the trustee of the education savings plan must submit a request to Revenu Québec, using the prescribed form, no later than June 30, 2008. For a taxation year after 2007, the request must be made no later than the 90th day following the end of the year. However, a request may be made within an extended deadline considered reasonable by the Minister of Revenue, but such deadline may not, at any time, exceed December 31 of the third year following the year for which the Québec education savings incentive is requested.

An amount payable to a trust for taxation year 2007 on account of the Québec education savings incentive will bear interest as of May 15, 2008 if the trust requested it no later than June 30, 2008. If not, it will bear interest as of the 46th day following the date the request is received by Revenu Québec. For a taxation year after 2007, the amount payable on account of the Québec incentive will bear interest after the 45th day following the date on which the 90-day period following the end of the year ends or the date the request is received by Revenu Québec, whichever is later.

The interest payable to a trust is calculated at the rate stipulated in section 28 of the *Act respecting the ministère du Revenu* regarding refunds.

14 Including, further to the changes made by Information Bulletin 2007-5 of June 26, 2007, trusts deemed to reside in Québec.

15 Provided that, at the time of the request, the trust is governed by a registered education savings plan (RESP) and that an agreement relating to the Québec education savings incentive is applicable regarding the plan and, if the RESP was subscribed for prior to January 1, 1999, it satisfies, at the end of the year for which the Québec education savings incentive is requested, the registration conditions stipulated in section 895 of the *Taxation Act* that apply to RESPs subscribed for after December 31, 1998.

❑ Determination of the Québec education savings incentive

The Québec education savings incentive to which may be entitled a trust governed by an education savings plan for a given taxation year regarding an individual who is, at the end of such year, a beneficiary of the plan residing in Québec, will be equal to the lowest of the following amounts:

- 10% of the aggregate contributions paid during the year and after February 20, 2007 into the plan by a plan subscriber or on his behalf for the benefit of the beneficiary, provided that, first, such contributions are not withdrawn from the plan during the year and, second, the beneficiary was under age 17 at the end of the preceding year and, if he was age 16 or 17 at the end of the year, he is an eligible beneficiary¹⁶ for the year, such aggregate hereunder called the “amount of eligible contributions for the year”;
- \$500;
- the amount of the accumulated rights of the beneficiary for the year.¹⁷

The amount thus calculated for the year regarding the beneficiary may be increased, provided the plan has a single beneficiary or, if it has more, they are all brothers and sisters,¹⁸ by an amount, hereunder called the “amount of the increase”, equal to either of the following amounts:

- where the family income applicable, for the year, regarding the beneficiary is no more than \$37 178 or, if the year is after 2007, no more than \$37 500,¹⁹ the lesser of \$50 and 10% of the amount of eligible contributions for the year;
- where the family income applicable, for the year, regarding the beneficiary is greater than \$37 178 but no more than \$74 357 or, if the year is after 2007, greater than \$37 500 but no more than \$75 000,²⁰ the lesser of \$25 and 5% of the amount of eligible contributions for the year.

16 This expression is defined below under the *Details of the determination of the Québec education savings incentive* heading.

17 The amount of the accumulated rights of a beneficiary for a year must be calculated according to the formula provided for below under the *Details of the determination of the Québec education savings incentive* heading.

18 For the purposes of the rules relating to the Québec education savings incentive, the words brother and sister of an individual mean only a person who is a sibling of the individual as well as a person who is the son or daughter of the spouse of the father or the mother of the individual.

19 This amount will be automatically indexed annually as of January 1, 2009, according to the index used to index the major parameters of the personal income tax system.

20 The amounts of \$37 500 and \$75 000 will be automatically indexed annually as of January 1, 2009, according to the index used to index the major parameters of the personal income tax system.

However, the amount of the Québec education savings incentive that may be allowed regarding a beneficiary for a given taxation year may not be greater than the excess of \$3 600 over the aggregate of the amounts paid on account of the Québec education savings incentive for a prior year regarding such beneficiary, excluding any amount recaptured by means of a special tax.

In addition, no amount may be allowed, for a given taxation year, on account of the Québec education savings incentive regarding the portion of the amount of eligible contributions for the year that, when added to the other contributions paid during the year or a prior year into RESPs for the benefit of the beneficiary – or deemed paid for his benefit for the purposes of the special tax on excess payments to RESPs²¹ -, exceeds the cumulative RESP limit for the year (currently \$50 000).

❑ Sharing of the Québec education savings incentive

Where, for a given taxation year, more than one trust files a request to obtain the Québec education savings incentive regarding the same beneficiary, the total of the amounts that may be allowed, for the year, on account of the Québec incentive to each of the trusts may not exceed the amount of the Québec incentive that would have been determined otherwise²² for the year regarding the beneficiary if the aggregate of the amounts each representing the amount of eligible contributions for the year paid into an RESP for the benefit of the beneficiary had been paid into the same plan giving rise, if applicable, to the amount of the increase, hereunder called the “maximum amount of the Québec education savings incentive for the year regarding the beneficiary”.

In the event that, for a given taxation year, more than one trust files a request to obtain the Québec education savings incentive within 90 days following the end of the year (or, no later than June 30, 2008, where the request concerns taxation year 2007) regarding the same beneficiary and the total of the amounts calculated for the year, on account of the Québec incentive for each of these trusts exceeds the maximum amount of the Québec education savings incentive for the year regarding the beneficiary, such maximum amount must be shared among the trusts according to the following rules:

-
- 21 This tax, stipulated in part X.4 of the *Income Tax Act*, is designed to dissuade subscribers from paying contributions to RESPs regarding a given beneficiary beyond a cumulative limit currently set at \$50 000. For the purposes of calculating this tax, certain contributions previously paid into an RESP on behalf of a former beneficiary and attributed to a new beneficiary as well as certain contributions transferred from one plan to another are, in certain circumstances, deemed to have been paid for the benefit of the new beneficiary or the beneficiaries of the transferee plan, as the case may be.
- 22 Taking into account the rules bearing on the maximum amount of \$3 600 that can be allowed on account of the Québec education savings incentive regarding a beneficiary and on the cumulative RESP limit for the year (currently \$50 000).

- the portion of the maximum amount attributable, if applicable, to the amount of the increase must be shared solely among the trusts governed by a plan giving rise to such amount in proportion, for each such trust, to the amount of eligible contributions for the year paid into the plan that governs it up to \$500 compared to the aggregate of the amounts each representing the amount of eligible contributions for the year, up to \$500, paid into each of the plans that govern one of these trusts;
- the portion of the maximum amount that exceeds the amount of the increase must be shared among the trusts governed by a plan for the benefit of the beneficiary in proportion, for each such trust, to the amount of eligible contributions for the year paid into the plan that governs it compared to the aggregate amount of eligible contributions for the year paid into each of the plans that govern one of these trusts.

Where, for a given taxation year, a trust files a request to obtain the Québec education savings incentive after the 90-day period following the end of the year (or, after June 30, 2008, where the application concerns taxation year 2007) regarding an individual who is the beneficiary of more than one RESP, the amount that may be allowed the trust on account of the Québec incentive for the year regarding such beneficiary will be equal to the following amounts:

- if the trust is governed by a plan giving rise to the amount of the increase, the excess of the portion of the maximum amount of the Québec education savings incentive for the year regarding the beneficiary that is attributable to the amount of the increase over any amount allowed on that account, for the year, to any other trust governed by an RESP with the same beneficiary;
- the excess of the portion of the maximum amount of the Québec education savings incentive for the year regarding the beneficiary, calculated regardless of the amount of the increase, over any portion of such amount that was allowed, for the year, to any other trust governed by an RESP with the same beneficiary.

□ **Details of the determination of the Québec education savings incentive**

■ **Determination of the amount of contributions paid for the benefit of a beneficiary**

For the purposes of calculating the amount of contributions paid into an RESP during a year, for the benefit of an individual who is the beneficiary of the plan at the end of the year, special rules will apply to reflect replacements of beneficiaries during the year and contributions paid into the plan by means of a transfer from another RESP.

- **Replacement of beneficiaries**

In the event that an individual (new beneficiary) is designated as beneficiary of an RESP during a given taxation year, replacing another individual who ceased to be a beneficiary of the plan (former beneficiary), any contribution paid into the plan during the year and after February 20, 2007, for the benefit of the former beneficiary by a plan subscriber or on his behalf will be considered to have been paid for the benefit of the new beneficiary, provided the replacement made in the year is a recognized replacement.

In this regard, the replacement, at a given time, of a beneficiary of an RESP (former beneficiary) by another beneficiary (new beneficiary) will be considered a recognized replacement where, as the case may be:

- the new beneficiary had not yet reached age 21 before the given time and was, at that time, the brother or sister of the former beneficiary;
- the two beneficiaries were, at that time, bound by ties of blood or by adoption to an initial plan subscriber and neither of them had reached age 21 before that time.

- **Transfer between plans**

In the event that a contribution is paid, during a given taxation year, into an RESP (the transferee plan) for the benefit of a given beneficiary by means of an authorized transfer from another RESP (the transferor plan), the contributions paid in the year prior to the time of the transfer and after February 20, 2007 into the transferor plan will be deemed to have been paid, during the year, into the transferee plan by the subscriber of such plan, or on his behalf, for the benefit of the given beneficiary, up to one of the following amounts:

- if the authorized transfer covered all of the assets held by the transferor plan and if the given beneficiary is the only beneficiary of the transferee plan at the time of the transfer, the aggregate contributions paid during the year, after February 20, 2007, and before the time of the transfer, for the benefit of any beneficiary of the transferor plan;
- if the authorized transfer covered all of the assets held by the transferor plan and if the transferee plan has many beneficiaries at the time of the transfer, the given beneficiary's share, established according to the allocation stipulated by the transferee plan, of the aggregate contributions paid during the year, after February 20, 2007, and before the time of the transfer, for the benefit of any beneficiary of the transferor plan;

- if the authorized transfer covered only a portion of the assets held by the transferor plan, other than those included in a Canada Education Bond account, and if the given beneficiary is the only beneficiary of the transferee plan at the time of the transfer, the proportion of the aggregate contributions paid during the year, after February 20, 2007, and before the time of the transfer, for the benefit of any beneficiary of the transferor plan represented by the ratio between the value of the transferred assets and the value, at the time of the transfer, of all the assets held in the transferor plan, other than those included in a Canada Education Bond account;
- if the authorized transfer covered only a portion of the assets held by the transferor plan, other than those included in a Canada Education Bond account, and if the transferee plan has many beneficiaries at the time of the transfer, the given beneficiary's share, established according to the allocation stipulated by the transferee plan, in the proportion of the aggregate contributions paid during the year, after February 20, 2007, and before the time of the transfer, for the benefit of any beneficiary of the transferor plan represented by the ratio between the value of the transferred assets and the value, at the time of the transfer, of all the assets held in the transferor plan, other than those included in a Canada Education Bond account.

A transfer of assets held in an RESP (transferor plan) to another RESP (transferee plan) will be considered an authorized transfer if the following conditions are satisfied:

- a beneficiary of the transferee RESP either was, immediately prior to the transfer, a beneficiary of the transferor RESP, or had not yet reached age 21 at the time of the transfer and was, immediately prior to the transfer, the brother or sister of beneficiary of the transferor RESP;
 - at the time of the transfer, either the transferee RESP had only one beneficiary or, if it had many, they were all brothers and sisters, or no amount had been paid to the transferor RESP on account of the amount of the increase of the Québec education savings incentive;
 - the transferee RESP satisfies the registration conditions stipulated by the tax legislation that apply to education savings plans subscribed for after December 31, 1998.
- **Withdrawal of contributions paid in the year for which the Québec education savings incentive is requested**

Where, during a given taxation year, only a portion of the assets held by an RESP, other than those included in a Canada Education Bond account, is paid to another RESP by means of a transfer, the proportion of the aggregate contributions paid during the year, after February 20, 2007, and before the time of the transfer, for the benefit of any beneficiary of the transferor plan represented by the ratio between the value of the transferred assets and the value, at the time of the transfer, of all the assets held in the transferor plan, other than those included in a Canada Education Bond account, will be considered to have been withdrawn from the plan before the end of the year.

■ Eligible beneficiary

An individual who is age 16 or 17 at the end of a given year is considered an eligible beneficiary for such year if one of the following conditions is satisfied:

- either a minimum of \$2 000 in contributions was paid into RESPs for his benefit and was not withdrawn before the end of the year in which he reached age 15;
- or a minimum of \$100 of annual contributions was paid into RESPs for his benefit and was not withdrawn during at least four years (consecutive or not) prior to the year in which he reached age 16;
- or, if the given year is 2007, he was the beneficiary of an RESP during at least four years (consecutive or not) prior to 2007;
- or, if the given year is 2008 and he reached age 17 during such year, he was the beneficiary of an RESP during at least four years (consecutive or not) prior to 2007.

■ Accumulated rights

The amount of accumulated rights of a beneficiary for a given taxation year is equal to the amount calculated according to the following formula:

$$(\$250 \times A) - B$$

For the purposes of this formula:

- the letter A corresponds to the number of years included in the period beginning on January 1, 2007, and ending on December 31 of the given taxation year and during which the beneficiary was alive, excluding years at the end of which the beneficiary was not a resident of Québec;
- the letter B represents the aggregate of the amounts each of which corresponds to the amount of the Québec education savings incentive, calculated regardless of the amount of the increase, that was allowed regarding the beneficiary for any year prior to the given taxation year.

■ Determination of family income

The family income applicable, for a given taxation year, regarding a beneficiary corresponds to the income, for the taxation year preceding the given year, of the person who is, at the beginning of January of the taxation year that follows the given year, an eligible individual regarding the beneficiary for the purposes of the calculation of the refundable tax credit for child support payable for such month, to which must be added, if need be, the income, for the taxation year preceding the given year, of the specified spouse of such person at the beginning of that month.

However, if, at the beginning of January of the year following a given taxation year, two persons – who are not mutually specified spouses – are eligible individuals regarding the same beneficiary and each of these persons is entitled to receive, for such month, an amount on account of the refundable tax credit for child support in relation to the beneficiary because of the fact that they share custody of the beneficiary, the applicable family income, for the given year, regarding the beneficiary corresponds to the amount obtained, by dividing by two, the aggregate of the income, for the taxation year preceding the given year, of each of these persons and the income, for the same preceding year, of the specified spouses of these persons at the beginning of January of the year following the given year.

Moreover, where the beneficiary of an RESP at the end of a given taxation year is lodged or placed under the law at the beginning of January of the year following the given year, the applicable family income, for the given year, regarding the beneficiary will be deemed to be equal to zero.

❑ Administrative details

■ The Québec education savings incentive account

A trust governed by an RESP that requests the Québec education savings incentive must keep an account, hereunder called the “Québec education savings incentive account”, that includes every amount paid to the trust of the plan on account of the Québec incentive.

At the time a Québec education savings incentive is paid to a trust governed by an RESP, the trustee must credit the amount received to the Québec education savings incentive account.

However, where an education assistance payment is made to a beneficiary of an RESP and part of such payment is attributable to the Québec education savings incentive, the trustee of the plan must, at the time of the education assistance payment is made, debit the Québec education savings incentive account an amount corresponding to the portion of such payment attributable to the incentive.²³ The account must also be debited any amount paid by a trust on account of a special tax for the recapture of the Québec education savings incentive.

Moreover, where an authorized transfer covers all the assets held in an RESP, the total of the amounts held in the plan on account of the Québec education savings incentive must, at the time of the transfer, be debited to the Québec education savings incentive account of such plan and credited to that of the transferee RESP.

23 In certain cases, the portion of an education assistance payment that is attributable to the Québec education savings incentive will be deemed zero. This presumption will apply where the beneficiary of an RESP does not reside in Québec at the time when the education assistance payment is made to him pursuant to the plan or where an education assistance payment is made to an individual who, as a beneficiary of an RESP that may have more than one beneficiary, became so after reaching age 21, unless, prior to reaching that age, he was a beneficiary of another RESP that may also have more than one beneficiary.

In the event that an authorized transfer covers only a portion of the assets held in an RESP, other than those included in a Canada Education Bond account, only the portion of the amounts held in the plan on account of the Québec education savings incentive will be considered to have been transferred. The amount thus transferred will correspond to the proportion of the total of the amounts held in the plan on account of the Québec education savings incentive represented by the ratio between the value of transferred assets and the value, at the time of the transfer, of all the assets held in the plan, other than those included in a Canada Education Bond account.

This amount must be debited, at the time of the transfer, from the Québec education savings incentive account of the transferor RESP and credited to that of the transferee RESP.

Where an amount on account of the Québec education savings incentive is credited to the Québec education savings incentive account of a transferee RESP, such amount will be deemed to have been paid to the trust governed by such plan.

■ Québec education savings incentive agreement

Since the Québec education savings incentive will no longer be determined on the basis of the Canadian grant, certain clauses must be added to the agreement relating to the Québec education savings incentive that every trustee must conclude with the Minister of Revenue in order for the trust governed by an education savings plan he manages to be able to request the Québec incentive.²⁴

More specifically, the agreement must stipulate that the trustee must:

- undertake to make available to the Minister of Revenue any information relating to the contributions paid, after February 20, 2007, into the plan he manages as well as to withdrawals of contributions, transfers and replacements of beneficiaries made after that date;
- in the case where an authorized transfer of assets from the plan he manages is made after February 20, 2007, undertake to send the trustee of the trust governed by the transferee plan the amount of contributions paid into the transferor plan regarding each of the beneficiaries for the period beginning on January 1 of the year of the transfer (or February 21, 2007, if the year of the transfer is 2007) and ending on the date of the transfer;
- undertake not to share the Québec education savings incentive and the income it generates otherwise than among the beneficiaries of the plan he manages.

²⁴ In this regard, see pages A.8 and A.9 of the appendix to section A of the *Additional Information on the Budgetary Measures, 2007-2008* and page 4 of Information Bulletin 2007-5 of June 26, 2007.

Moreover, the trustee must undertake to make no distribution of the assets held in the plan he manages unless, immediately after the distribution, the fair market value of the assets held in the plan is equal to or greater than the total balances of the Québec education savings incentive account, the Canada Education Savings Grant account, the Canada Education Bond accounts and the assistance paid by the federal government pursuant to an agreement concluded with the government of a province under the *Canada Education Savings Act* account, or the distribution consists of an educational assistance payment to a beneficiary of the plan the entire amount of which is attributable to the Québec education savings incentive, the Canada education savings grant and the Canada education bond.

However, the trustee will no longer have to undertake to supply the Minister of Revenue with any information on the Canada education savings grants attributable to the beneficiaries of the plan he manages.

For greater clarity, the Minister of Revenue must still conclude an agreement with the promoter of an education savings plan to make the agreement relating to the Québec education savings incentive concluded with the plan trustee fully applicable. As part of this agreement, the promoter may authorize the Minister of Revenue to make public, on the Revenu Québec website, the fact that the education savings plans he offers are authorized to receive the Québec education savings incentive.

❑ **Recapture of the Québec education savings incentive**

It was announced in the 2007-2008 Budget Speech that various special taxes would be implemented²⁵ to recapture, following certain events, all or part of the amounts granted on account of the Québec education savings incentive.

These various special taxes, with the exception of the special tax relating to a Canada education savings grant received without entitlement, will be maintained. However, certain adjustments will be made to the special tax to prevent premature withdrawal of contributions to the plan, the special tax reflecting specific events and the special tax relating to a beneficiary who is not authorized to benefit from the plan.

25 In this regard, see pages A.12 to A.17 of the appendix to section A of the *Additional Information on the Budgetary Measures, 2007-2008*.

■ Special tax to prevent premature withdrawal of contributions to the plan

Where a contribution paid into an RESP gives rise to the Québec education savings incentive and such contribution is withdrawn from the plan – other than because of an eligible withdrawal or a transfer to another RESP – and no plan beneficiary is eligible to receive an education assistance payment, the trust governed by the plan will be required to pay, for the calendar year during which the contribution is withdrawn, a special tax equal to the lesser of the balance of the Québec education savings incentive account immediately prior to the withdrawal and the amount calculated according to the following formula:

$$\frac{\text{the balance of the Québec education savings incentive account immediately prior to the withdrawal}}{\text{the total of the contributions paid into the plan immediately prior to the withdrawal and which gave rise to the Québec education savings incentive}} \times \text{the amount of the contribution withdrawn from the plan}$$

For the purposes of the calculation of this special tax, an eligible withdrawal from an RESP means a withdrawal representing all or part of an excess of contributions to the plan, provided the latter is intended to reduce the amount of tax payable by a subscriber to the plan on account of the federal tax on excess payments to RESPs.

■ Special tax reflecting specific events

Briefly, where certain events occur (for instance, termination of an RESP, revocation of the plan's registration, replacement of the plan's beneficiary by another beneficiary except in the case of a recognized replacement or the transfer of the assets held in an RESP to another RESP if the transfer in question is not an authorized transfer), the trust governed by the RESP must pay a special tax.

For the purposes of this special tax, the notions of recognized replacement and authorized transfer will have the same meaning as they have for the purposes of determining the amount of contributions paid for the benefit of a beneficiary.

■ Special tax relating to a beneficiary who is not authorized to benefit from the plan

Where an amount of increase has been paid to a trust governed by an RESP and, during a given calendar year, an individual who is neither the brother nor the sister of the other beneficiaries of the plan becomes a beneficiary of it, the trust will be required to pay, for the given calendar year, a tax equal to the lesser of the balance of the Québec education savings incentive account immediately prior to the time when the individual becomes a beneficiary and the excess of the fair market value of the assets held in the plan, at that time, over the total balances of the Canada Education Savings Grant account and the Canada Education Bond accounts at that time.

❑ Order of withdrawal of contributions

Since contributions paid into an RESP during a given taxation year and withdrawn in the same year do not give rise to the Québec education savings incentive, an order of withdrawal of contributions will be established, which will also serve as the basis for the application of the special tax to prevent premature withdrawal of contributions to the plan.

For these purpose, withdrawals of contributions from an RESP will be deemed to be made, during a given year, in the following order:

- the contributions paid in the year and, if the given year is 2007, after February 20, 2007, in the order of their payment (first in – first out);
- the contributions paid during a year prior to the given year that gave rise to the Québec education savings incentive;²⁶
- the contributions paid after February 20, 2007, during a year prior to the given year that did not give rise to the Québec education savings incentive;
- contributions paid before February 21, 2007.

❑ New determination of the Québec education savings incentive

Where a trust is required to refund an amount on account of the Québec education savings incentive because the Minister of Revenue has made a new determination of this incentive or has established an additional determination in this regard and it will be governed by an RESP under which an education assistance payment will have been paid to a beneficiary of the plan, the latter will be required, solidarily with the trust, to pay the amount thus refundable, up to any portion of the education assistance payment that can be reasonably considered attributable to the amount to be refunded on account of the Québec education savings incentive.

❑ Other rules

The set of terms and conditions relating to the breakdown of an education assistance payment announced in the 2007-2008 Budget Speech²⁷ will be maintained. The same is true of the consequential amendments announced at that time.²⁸

26 For greater clarity, for this purpose, any contribution exceeding the cumulative RESP limit for the year in which it is paid (currently the cumulative RESP limit is \$50 000) will not be considered to have given rise to the Québec education savings incentive.

27 In this regard, see pages A.9 to A.12 of the appendix to section A of the *Additional Information on the Budgetary Measures, 2007-2008*.

28 In this regard, see page A.18 of the appendix to section A of the *Additional Information on the Budgetary Measures, 2007-2008*.

Appendix 2

Duplessis tourist region

	Geographic code
- Aguanish	98030
- Baie-Johan-Beetz	98035
- Blanc-Sablon	98005
- Bonne-Espérance	98010
- Caniapiscau	97908
- Côte-Nord-du-Golfe-du-Saint-Laurent	98015
- Fermont	97035
- Gros-Mécatina	98014
- Havre-Saint-Pierre	98040
- Kawawachikamach	97806
- Lac-Jérôme	98904
- Lac-John	97810
- Lac-Juillet	97912
- Lac-Vacher	97914
- Lac-Walker	97904
- La Romaine	98804
- L'Île-d'Anticosti	98020
- Longue-Pointe-de-Mingan	98045
- Maliotenam	97804
- Matimekosh	97808
- Mingan	98808
- Natashquan	98025
- Natashquan	98806
- Pakuashipi	98802
- Petit-Mécatina	98902
- Port-Cartier	97022

Duplessis tourist region (cont.)

	Geographic code
- Rivière-au-Tonnerre	98055
- Rivière-Mouchalagane	97906
- Rivière-Nipissis	97902
- Rivière-Saint-Jean	98050
- Saint-Augustin	98012
- Schefferville	97040
- Sept-Îles	97007
- Uashat	97802