

## HARMONIZATION WITH FEDERAL TAX MEASURES AND UPDATED AUTOMOBILE TAX PARAMETERS FOR 2023

This information bulletin outlines the Ministère des Finances' position on the changes to the federal tax system introduced by the Department of Finance Canada. These changes stem from the November 3, 2022 *Fall Economic Statement* and the assent of Bill C-32 on December 15, 2022.

It also presents a consequential amendment to be made to the Québec sales tax system to reflect the federal amendment to the definition of “excisable goods” in Part IX of the *Excise Tax Act*.

Finally, this information bulletin announces the deduction limits for automobile expenses and the rates for calculating the value of taxable benefits from the use of an automobile for 2023, as well as the Ministère des Finances' position with respect to the increase, starting in 2023, in the capital cost ceilings for passenger vehicles for the purposes of capital cost allowances announced by the federal government.

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## **HARMONIZATION WITH FEDERAL TAX MEASURES AND UPDATED AUTOMOBILE TAX PARAMETERS FOR 2023**

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## 1. POSITION OF THE MINISTÈRE DES FINANCES DU QUÉBEC REGARDING THE TAX MEASURES ANNOUNCED IN THE GOVERNMENT OF CANADA'S FALL ECONOMIC STATEMENT 2022

On November 3, 2022, the Minister of Finance of Canada presented the *Fall Economic Statement 2022*. At that time, she tabled supplementary information on a number of new personal and corporate income tax measures.<sup>1</sup>

The Ministère des Finances du Québec wishes to publicly state its position regarding these new federal tax measures.

### □ Measure retained

The *Fall Economic Statement 2022* proposes to extend the new residential property flipping rule announced in the April 7, 2022 federal budget to assignment sales. The new rule, including the extension for assignment sales, applies in respect of transactions occurring on or after January 1, 2023.

In *Information Bulletin 2022-4*, dated June 9, 2022,<sup>2</sup> the Ministère des Finances du Québec announced that it intends to harmonize Québec's tax legislation with the federal tax legislation with respect to the new residential property flipping rule.<sup>3</sup>

Accordingly, it is appropriate that the Québec tax legislation be amended to incorporate the measure relating to the extension of the residential property flipping rule to assignment sales announced in the *Fall Economic Statement 2022*. However, the amendment to the Québec tax legislation will be adopted only after the assent of any federal legislation giving effect to the measure retained, taking into account the technical amendments that may be made prior to the assent.

### □ Measures not retained

Certain measures have not been retained because they do not correspond to the characteristics of the Québec tax system or because the latter is satisfactory or does not contain similar provisions. The measures concern:

- the automatic advance for the Canada Workers Benefit;<sup>4</sup>
- the investment tax credit for clean technologies.

<sup>1</sup> "Tax Measures: Supplementary Information", in DEPARTMENT OF FINANCE CANADA, *Fall Economic Statement 2022*, pp. 75-82, [Online], November 3, 2022, [<https://www.budget.canada.ca/fes-eea/2022/report-rapport/FES-EEA-2022-en.pdf>].

<sup>2</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2022-4*, June 9, 2022, p. 6.

<sup>3</sup> Federal legislation relating to the new residential property flipping rule is included in Bill C-32: *An Act to implement certain provisions of the fall economic statement tabled in Parliament on November 3, 2022 and certain provisions of the budget tabled in Parliament on April 7, 2022*, S.C. 2022, c. 19, assented to on December 15, 2022, [Online], [<https://www.parl.ca/DocumentViewer/en/44-1/bill/C-32/royal-assent>].

<sup>4</sup> The Québec tax system already provides for the advance payment of refundable tax credits to increase work incentives (general and adapted work premiums).

## 2. CLARIFICATION REGARDING THE TAX-FREE FIRST HOME SAVINGS ACCOUNT

In the budget speech of April 7, 2022,<sup>5</sup> the federal government introduced the Tax-Free First Home Savings Account (FHSA). Despite the lack of federal legislation, the Québec government announced in *Information Bulletin 2022-4*<sup>6</sup> that it intended to harmonize its tax system with the federal tax system regarding this new registered savings account in order to provide predictability for individuals residing in Québec.

Since the legislative provisions relating to the FHSA were assented to on December 15, 2022<sup>7</sup> and come into force on April 1, 2023, it is necessary to provide certain clarifications regarding the harmonization of the Québec tax system with the federal tax system in this regard.

Thus, the Québec government reiterates that the majority of these FHSA provisions including, but not limited to, the measures relating to the tax treatment of the FHSA, will be integrated into Québec's tax legislation and regulations with adaptations based on their general principles.

However, for the purposes of the Québec tax system, a tax-free first home savings account will mean an account that is accepted for the purposes of the *Income Tax Act* by the Minister of Revenue of Canada as a tax-free first home savings account. For greater clarity, the amount that will be allowed as a deduction in calculating the individual's income, for a taxation year, for the purposes of the Québec tax system in respect of contributions made to this account will be the amount allowed as a deduction for the purposes of the federal tax system in this regard.<sup>8</sup>

In this context, the measures relating to the registration of a FHSA, FHSA contribution limits, qualified investments and the tax under Parts X.2 and XI.01 of the *Income Tax Act* will not be incorporated into the Québec tax legislation.

Lastly, the Québec tax legislation will not be harmonized with the federal tax legislation regarding Part XIII tax since the Québec tax system does not have a similar provision.

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<sup>5</sup> DEPARTMENT OF FINANCE CANADA, *Budget 2022 – Tax Measures: Supplementary information*, [Online], April 7, 2022, [<https://www.budget.canada.ca/2022/pdf/tm-mf-2022-en.pdf>].

<sup>6</sup> See note 2.

<sup>7</sup> *An Act to implement certain provisions of the fall economic statement tabled in Parliament on November 3, 2022 and certain provisions of the budget tabled in Parliament on April 7, 2022*, S.C. 2022, c. 19.

<sup>8</sup> *Ibid.* Subsection 31(1) of the Act introduces subsection 146.6(5) into the *Income Tax Act* regarding the FHSA deduction, as well as the concept of an “annual FHSA limit” in new subsection 146.6(1).

### 3. HARMONIZATION WITH THE GOODS AND SERVICES TAX AND THE HARMONIZED SALES TAX (GST/HST) SYSTEM

On April 7, 2022, the Minister of Finance of Canada presented the federal government's budget for 2022. At that time, she tabled in the House of Commons a Notice of Ways and Means Motion to amend the *Excise Act, 2001* and other related texts.<sup>9</sup>

To this end, a consequential amendment was made to the *Excise Tax Act* to include vaping products in the definition of "excisable goods" in Part IX of the *Excise Tax Act*. Given the general principle of harmonizing the Québec sales tax (QST) system with the GST/HST system, an amendment will be made to the QST system to incorporate this change.

This change will be applicable as of the same date as the date of application of the federal measure, that is, October 1, 2022.

### 4. HARMONIZATION WITH THE DECEMBER 16, 2022 DEPARTMENT OF FINANCE CANADA NEWS RELEASE

#### □ Limits and rates governing the use of an automobile for 2023

On December 16, 2022, the Department of Finance Canada announced, by way of a news release, the limits governing the deductibility of automobile expenses and the rates used to calculate the value of the taxable benefits relating to the use of an automobile that will apply for 2023.<sup>10</sup>

In this regard, in keeping with the principle of substantial harmonization of tax legislations regarding automobiles, the various limits and rates governing the deductibility of automobile expenses and governing the calculation of the value of taxable benefits relating to the use of an automobile contained in Québec's tax legislation and regulations will be, for 2023, the same as those applicable under the federal tax system. These limits and rates are presented in an appendix.

<sup>9</sup> DEPARTMENT OF FINANCE CANADA, Budget 2022 – Tax Measures: Supplementary Information – *Notice of Ways and Means Motion to amend the Excise Act, 2001 and other related texts*, [Online], April 7, 2022, [<https://www.budget.canada.ca/2022/report-rapport/nwmm-amvm-03-en.html>].

<sup>10</sup> *Id.*, *Government announces the 2023 automobile deduction limits and expense benefit rates for businesses*, [Online], December 16, 2022, [<https://www.canada.ca/en/departement-finance/news/2022/12/government-announces-the-2023-automobile-deduction-limits-and-expense-benefit-rates-for-businesses.html>].

## ❑ Capital cost ceilings as from 2023 for passenger vehicles for the purposes of capital cost allowances

The Department of Finance Canada also announced, in the December 16, 2022 news release,<sup>11</sup> changes to the capital cost ceilings for passenger vehicles, for the purposes of capital cost allowances, such that:

- the \$59 000 ceiling for zero-emission passenger vehicles will be increased to \$61 000 where such a vehicle is acquired after 2022;
- the \$34 000 ceiling for passenger vehicles will be increased to \$36 000 where such a vehicle is acquired after 2022.

Since the Québec tax system is generally harmonized with the federal tax system with respect to capital cost allowance measures, the Québec tax legislation and regulations will be amended to incorporate, by adapting them in accordance with their general principles, the amendments made to the federal tax legislation and regulations in this regard.

Moreover, the amendments to the Québec tax system will be adopted only after the assent of any federal legislation or the adoption of any federal regulation giving effect to the proposed amendments, bearing in mind the technical amendments that may be made prior to the assent or adoption. In addition, they will be applicable on the same date as that used for the application of the amendments to the federal tax system with which they are harmonized.

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<sup>11</sup> *Ibid.*

## APPENDIX

### Limits governing the deductibility of automobile expenses and rates for benefits relating to the use of an automobile for 2023

Automobile expenses or value of certain taxable benefits	Limit or rate
Amount deductible from allowances paid by an employer to an employee according to distance travelled with the employee's automobile	
– For the first 5 000 kilometres:	as of January 1, 2023, the limit will increase from \$0.61/km to \$0.68/km. <sup>(1)</sup>
– For additional kilometres:	as of January 1, 2023, the limit will increase from \$0.55/km to \$0.62/km. <sup>(1)</sup>
Value of the benefit relating to operating expenses of an automobile that an employee uses for personal purposes, where the automobile is supplied by the employer	
– If the job consists mainly in selling or leasing automobiles during the taxation year:	as of January 1, 2023, the rate will increase from \$0.26/km to \$0.30/km.
– In other cases:	as of January 1, 2023, the rate will increase from \$0.29/km to \$0.33/km.
Maximum capital cost of non zero-emission passenger vehicles for the purposes of the capital cost allowance:	for vehicles acquired after 2022, the maximum capital cost will increase from \$34 000 to \$36 000. <sup>(2)</sup>
Maximum capital cost of zero-emission passenger vehicles <sup>(3)</sup> for the purposes of the capital cost allowance:	for vehicles acquired after 2022, the maximum capital cost will increase from \$59 000 to \$61 000. <sup>(2)</sup>
Interest expenses eligible as a deduction:	for vehicles acquired after 2022, the limit will remain at \$300/month.
Leasing charges eligible as a deduction:	for leases entered after 2022, the limit will increase from \$900/month to \$950/month. <sup>(2)</sup>

(1) The limit will continue to be 4 cents higher per kilometre in Yukon, the Northwest Territories and Nunavut, to reflect the higher cost of maintaining and operating a vehicle in those territories. Accordingly, it will increase to \$0.72 per kilometre for the first 5 000 kilometres and to \$0.66 per additional kilometre.

(2) This is the cost before applicable sales taxes are taken into account.

(3) Zero-emission passenger vehicles include plug-in hybrids with a battery capacity of at least 7 kWh and vehicles that are fully electric or fully powered by hydrogen.