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Finances Québec

INFORMATION BULLETIN

November 21, 2017 2017-11

MEASURES ANNOUNCED AS PART OF THE PRESENTATION OF THE QUÉBEC ECONOMIC PLAN UPDATE

This information bulletin sets out the amendments that will be made to the tax legislation and regulations to give effect to certain measures announced by the Minister of Finance as part of the Québec Economic Plan update presented today.

In this regard, the government is continuing its goals of easing the tax burden on Québecers and increasing their disposable income, by granting a new general tax reduction through a decrease in the tax rate applicable to the first taxable income bracket for individuals, from 16% to 15%, as of 2017.

In addition, to help parents with back-to-school expenses, an annual, universal supplement of $100 per school-aged child will be granted as of 2017 for the purchase of school supplies.

As part of the third Plan to Combat Poverty and Social Exclusion, the refundable tax credit granting a work premium will be enhanced, by increasing the rates under the general and adapted work premiums for households without children and shortening the period during which social assistance must have been received in order to be eligible for the supplement to the work premium.

Moreover, workers whose contributions to the Québec Pension Plan increase because of the upcoming enhancements to the plan will be able to deduct these additional amounts from their income.

Lastly, to improve the efficiency of certain tax assistance providing income support and make it easier for individuals to obtain the tax assistance, individuals will no longer be required to apply for the assistance.

For information concerning the matters dealt with in this information bulletin, contact the Secteur du droit fiscal, de l’optimisation des revenus et des politiques locales et autochtones at 418 691-2236.

The English and French versions of this bulletin are available on the Ministère des Finances website at www.finances.gouv.qc.ca.

MEASURES ANNOUNCED AS PART OF THE PRESENTATION OF THE QUÉBEC ECONOMIC PLAN UPDATE

1. NEW PERSONAL INCOME TAX REDUCTION AS OF 2017

As part of the budget speech of March 28, 2017,[1] the government announced a general tax reduction of over $270 million per year in the form of an increase of the basic tax credit granted to all individuals, other than trusts. This increase raised the threshold above which income tax generally became payable in Québec for the 2017 taxation year—commonly known as the "zero-tax threshold"—from $14 544 to $14 890, and enabled individuals to deduct from their income tax payable an additional amount of slightly over $55.

The government is continuing its goals of easing the tax burden on Quebecers and increasing disposable income, by granting a new general tax reduction as of 2017.

The new general tax reduction will be in the form of a one-percentage-point decrease in the tax rate applicable to the first taxable income bracket of the personal income tax table—the income bracket not exceeding $42 705 for 2017—from 16% to 15%.[2] The tax legislation will therefore be amended accordingly.

For the 2017 taxation year, this new tax reduction will be applied when individuals file their income tax return.

As of the 2018 taxation year, it will be reflected in the income tax to be deducted at source from wages and certain other amounts, such as retirement benefits.

However, individuals who are required to pay their income tax in instalments may adjust, in accordance with the usual rules, any instalment payment due after September 15, 2017, in order to take into account the new general tax reduction.

❑ Changes to personal tax credits

■ Decrease in the conversion rate

The tax legislation will also be amended to reduce the rate applicable to the various amounts[3] for calculating personal tax credits, formerly 16%, so that it corresponds to the new rate applicable to the first taxable income bracket of the personal income tax table, 15%, as of the 2017 taxation year.

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1 Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2017-2018*, March 28, 2017, pp. A.4-A.14.

2 For greater clarity, the measure will apply to successions that are graduated rate estates and to qualified disability trusts.

3 These are the basic amount, the amounts for persons living alone, with respect to age and for retirement income, the amount for severe and prolonged impairment in mental or physical functions, the amount for children under 18 enrolled in vocational training or post-secondary studies, the amount for other dependants and the amounts for calculating the transferred amount representing the recognized parental contribution.

■ Increase in the amounts granted for the purpose of calculating certain personal tax credits

To take into account the composition of certain households, such as large families with children enrolled in vocational training or post-secondary studies, and ensure that they receive the benefit of the new general tax reduction, the tax legislation will be amended to again include an increase in the amounts granted for the purposes of calculating certain personal tax credits as of the 2017 taxation year.

The following table indicates the new amounts that will be granted for the 2017 taxation year for the purpose of calculating certain personal tax credits.

TABLE

Change in the amounts granted for the purpose of calculating personal tax credits for the 2017 taxation year
(dollars)

	Conversion rate of 16% after budget		Conversion rate of 15% after update	
	Amount granted	Tax reduction	Amount granted	Tax reduction
Amount for a child under 18 enrolled in vocational training or post-secondary studies – per term	2 682(1)	429(2),(3)	2 861(1)	429(2),(3)
Amount for other dependants	3 907(1)	625(2),(3)	4 168(1)	625(2),(3)
Transferred amount representing the recognized parental contribution				
– Maximum amount	9 582	1 533(2),(3)	10 222	1 533(2),(3)
– Reduction when one term has been completed	2 682	429(2)	2 861	429(2)

(1) In certain cases, the amount granted may be reduced on the basis of income.
(2) The result is rounded to the nearest dollar.
(3) The amount indicated is the maximum tax reduction.

As of the 2018 taxation year, each of the amounts granted for the purpose of calculating these tax credits will be automatically adjusted each year.

As with the adjustment of the main parameters of the personal income tax system, the index to be used with respect to personal tax credits will correspond to the percentage change in the overall average Québec consumer price index without alcoholic beverages and tobacco products (QCPI-WAT) for the 12-month period ending on September 30 of the year preceding the one for which an amount is to be adjusted, compared to the average QCPI-WAT for the 12-month period ended on September 30 of the year prior to the year preceding the one for which an amount is to be adjusted.

This index will be applied, for a particular year, to the previous year's value of the amount subject to indexation. For greater clarity, where the result obtained by applying the index is not a multiple of 1, it will be adjusted to the nearest multiple of 1 or, if it is equidistant from two multiples of 1, to the nearest higher multiple of 1.

■ Clarification concerning the changes announced, as part of the budget speech of March 28, 2017, for the purpose of calculating the basic amount and personal tax credits

For greater clarity, the increase in the basic amount and the 25% increase in the other amounts[4] for calculating personal tax credits, as well as the indexation of these amounts as of 2018, announced as part of the latest budget speech, will be maintained.

This will also be the case for:

— the raise by 25% of the aggregate of the amounts, each of which represents eligible retirement income of an individual,[5] and the change in the reduction rate based on household income, from 15% to 18.75%, for calculating the tax credit for persons living alone, with respect to age and for retirement income;

— the removal of the adjustment factor applied to a dependant's income is for calculating the tax credit respecting other dependants.

Moreover, the changes announced at that time to the adjustment of the basic tax credit following receipt of an income replacement indemnity will be maintained, including those pertaining to the 2017 taxation year.

In addition, the tax legislation will be amended to provide that, in regard to a covered benefit attributable to 2017, the adjustment respecting a covered benefit determined by the Commission des normes, de l'équité, de la santé et de la sécurité du travail and the Société de l'assurance automobile du Québec must be established by these bodies as if 16% were still the rate applicable to the first taxable income bracket.

❑ Reduction of the rate applicable to the calculation of the tax credit for volunteer firefighters and the tax credit for search and rescue volunteers

The tax system grants a non-refundable tax credit to individuals who provide eligible volunteer firefighter services to one or more fire safety services. It also grants a non-refundable tax credit to individuals who provide eligible services as search and rescue volunteers to an eligible search and rescue organization.

4 These are the amounts for persons living alone, with respect to age and for retirement income, and the amount for severe and prolonged impairment in mental or physical functions.

5 Thus, for the 2017 taxation year, the amount for retirement income that may be taken into account in respect of an individual will be equal to the lesser of $2 782 and the product obtained by multiplying 1.25 by the amount corresponding to the aggregate of the individual's eligible retirement income for the year.

Each of these tax credits is calculated on the basis of an amount of $3 000, to which a rate of 16%, the rate applicable to the first taxable income bracket of the personal income tax table, is applied.

As of the 2017 taxation year, the tax legislation will be amended to replace the rate of 16% used to determine these tax credits by a rate of 15%, so that the tax credits continue to be calculated on the basis of the rate applicable to the first taxable income bracket of the personal income tax table.

❑ Changes respecting the tax credit for experienced workers

The tax system grants experienced workers a tax credit designed to eliminate the income tax that would otherwise have been payable on a portion of their eligible work income in excess of the first $5 000. The tax credit is also reduced based on income for workers who were under 65 years of age in 2015 (individuals born after December 31, 1950).

Since 2016, the age of eligibility for the tax credit has been gradually lowered to reach 62 years of age in 2018, and the eligible work income limit varies according to the worker's age.

Briefly, an individual's eligible work income for a year is the remuneration included in calculating the individual's income for the year from an office or employment, the amount by which the individual's income for the year from any business the individual carries on either alone or as a partner actively engaged in the business exceeds the individual's losses for the year from such businesses, and the grants received by the individual in the year to carry on research or any similar work.

In all cases, the tax credit is calculated, before the possible income-based reduction, on the basis of a rate of 16% applied to an amount equal to 94% of the amounts giving rise to the tax credit (that is, the amount by which eligible work income exceeds $5 000, up to the applicable limit). This weighting factor of 94% enables the 6% deduction granted to workers to be factored in.

The tax legislation will be amended to make two changes to the tax credit for experienced workers as of the 2017 taxation year. First, so that the tax credit continues to be calculated on the basis of the rate applicable to the first taxable income bracket of the personal income tax table, the rate of 16% will be replaced by a rate of 15%. Second, to continue to encourage experienced workers to remain in or re-enter the labour market, the terms for calculating the tax credit will be adjusted to remove the 94% weighting factor respecting the portion, up to the applicable limit, of eligible work income giving rise to the tax credit.

❑ Clarifications concerning source deductions of income tax

The clarifications concerning source deductions, made as part of the budget speech of March 28, 2017, will be maintained.

In addition, for the 2017 taxation year, source deductions of income tax must be made as if 16% were still the rate applicable to the first taxable income bracket of the personal income tax table and without taking into account the changes made to the terms for calculating certain tax credits.

For greater clarity, amendments will be made to the tax legislation and regulations to confirm this procedure.

The tax legislation and regulations will be amended, for the purpose of determining source deductions of income tax for a taxation year subsequent to the 2017 taxation year, in order to give full effect to the new general tax reduction and the changes concerning the calculation of personal tax credits and the tax credit for experienced workers.

In regard to certain types of payments, the tax regulations provide that the amount of income tax to be deducted at source corresponds to the amount obtained by multiplying the amount of the payment by a fixed rate. So that the rates applicable for the purpose of calculating source deductions of income tax take into account the reduction of the rate applicable to the first taxable income bracket of the personal income tax table, various amendments will be made to the existing tax regulations respecting payments made or remuneration paid after December 31, 2017.

■ Single payments under a RRIF or an RRSP

Currently, a person who makes a single payment under, for example, a registered retirement income fund (RRIF) for the portion that exceeds the minimum amount or a registered retirement savings plan (RRSP) must generally deduct income tax at source from the income of individuals equal to 16% of the payment.

The tax regulations will be amended to replace the rate of 16 % for source deductions from such single payments by a rate of 15%.

■ Other single payments

A person who makes a single payment otherwise than under a RRIF or an RRSP must deduct income tax at source from the income of individuals equal to 16% of the payment, where it does not exceed $5 000, and to 20% of the payment, where it exceeds $5 000.

Briefly, single payments from which such a source deduction of income tax is made are retiring allowance payments, certain payments from a registered education savings plan, certain payments under a pension plan, a payment made as part of a deferred profit sharing plan, a payment made as a death benefit and an amount paid to an employee or a former employee pursuant to an order or judgment, where part of the amount paid relates to a previous year.

The tax regulations will be amended to replace the rate of 16% for source deductions from such single payments that do not exceed $5 000 by a rate of 15%.

■ Assistance payment made under a registered disability savings plan

A person who makes a disability assistance payment under a registered disability savings plan must deduct income tax at source from the income of individuals equal to 16% of the taxable portion of the payment.

The tax regulations will be amended to replace the rate of 16% for source deductions from the taxable portion of such assistance payments by a rate of 15%.

■ Payment under a government work-incentive project

A person who pays an amount as an earnings supplement under certain government work-incentive programs must deduct income tax at source from the income of individuals equal to 16% of the amount.

The tax regulations will be amended to replace the rate of 16% for source deductions from such an amount by a rate of 15%.

■ Remuneration of self-employed fishers

Individuals who fish otherwise than under an employment contract may elect to have income tax deducted at source from their remuneration. Currently, where a self-employed fisher makes such an election, any person who pays the fisher remuneration must deduct income tax at source from the income of individuals equal to16% of the remuneration.

The tax regulations will be amended to replace the rate of 16% for source deductions from remuneration paid to individuals who made or make this election by a rate of 15%.

❑ Consequential amendments

■ Presumption of residence

For the purposes of the tax system, individuals who are not resident in Québec at the end of a particular taxation year are nonetheless deemed, in certain circumstances, to have been resident in Québec throughout the year.

Currently, the tax legislation states that the child of an individual who is deemed to be resident in Québec because of his or her duties is also deemed to be resident in Québec, provided the child is the individual's dependant and the child's income for the year does not exceed a certain threshold.

For the purposes of this presumption, the limit on the child's income for a taxation year subsequent to the 2016 taxation year will be established on the basis of $10 222, which will be automatically indexed each year as of January 1, 2018.[6]

■ Refundable tax credit for childcare expenses

Childcare expenses paid in respect of an eligible child with a view to, in particular, enabling an individual or the individual's spouse to work, pursue studies or actively seek employment may be converted into a refundable tax credit at a rate established on the basis of family income.

For the purposes of this tax credit, the definition of "eligible child" will be amended, as of the 2017 taxation year, to state that an eligible child of an individual for a taxation year means a child of the individual or the individual's spouse, or a child who is a dependant of the individual or the individual's spouse and whose income for the year does not exceed $10 222, if, in any case, at any time during the year, the child is under 16 years of age or is dependent on the individual or the individual's spouse and has a mental or physical infirmity.

6 This amount will be automatically indexed each year according to the same rules as those applicable to the indexation of the amounts used to calculate personal tax credits.

For greater clarity, the amount of $10 222 will be automatically indexed each year as of January 1, 2018.[7]

❑ Alternative minimum tax

The alternative minimum tax is designed to strike a balance between, on the one hand, the objectives of fairness and funding of public expenditures and, on the other, the objectives of economic development, by ensuring that taxpayers who benefit from tax preferences pay a minimum amount of tax each year. In the absence of alternative minimum tax, it would in fact be possible for certain taxpayers with high incomes to considerably reduce or eliminate their income tax payable, by taking advantage of tax preferences that were introduced into the tax system to, among other things, achieve certain economic development objectives.

Briefly, alternative minimum tax requires taxable income to be recalculated. Adjusted taxable income, minus the basic exemption of $40 000, is subject to a flat tax rate of 16%.

So that the flat tax rate for the purpose of calculating alternative minimum tax continues to be the rate applicable to the first taxable income bracket of the personal income tax table, the tax legislation will be amended to replace the rate of 16% by a rate of 15% as of the 2017 taxation year.

2. SUPPORT OF MINOR CHILDREN – NEW SUPPLEMENT OF $100 FOR THE PURCHASE OF SCHOOL SUPPLIES

The refundable tax credit for child assistance (RTCCA), which has been granted since 2005, occupies an important place in Québec's family policy, in that it provides families with financial assistance to help them provide for their children under 18 years of age.

This tax credit is composed of a child assistance payment, a supplement for handicapped children and, since April 1, 2016, a supplement for handicapped children with exceptional care needs.

The child assistance payment, which includes a universal base, is determined according to family income, in order to grant additional assistance to low- and middle-income families. The supplement for handicapped children is intended to address the additional needs of a handicapped child, and the supplement for handicapped children with exceptional care needs is intended to increase financial support for parents of a child who has a serious illness or severe disabilities, in order to recognize the exceptional nature of their situation and enable them to assume their extraordinary responsibilities. These two supplements are granted irrespective of family income.

Retraite Québec is responsible for paying the RTCCA to Québec families. Retraite Québec makes RTCCA payments on a quarterly basis. Each instalment, made in January, April, July and October, includes the amounts determined for the months included in the quarter. However, Retraite Québec makes RTCCA payments on a monthly basis if an individual so requests, in which case each instalment includes the amount determined for that month.

7 See the preceding note.

❑ New supplement for the purchase of school supplies

For families with school-aged children, the new school year means additional expenses, in particular for the purchase of school supplies. These extra expenses can be a substantial budget item for some families, especially large ones.

To help parents with back-to-school expenses, the tax legislation will be amended to grant annual, universal financial assistance of $100 per school-aged child, called the "supplement for the purchase of school supplies," by means of a new component incorporated into the RTCCA.

■ Determination of the new supplement for the purchase of school supplies

For a year subsequent to 2017, for the purpose of calculating the RTCCA for July, an amount equal to the product obtained by multiplying $100 by the number of eligible school-aged dependent children in respect of whom an individual is an eligible individual[8] at the start of the month will be added to the child assistance payment and, as the case may be, to the supplements for handicapped children and for handicapped children with exception care needs to which the individual is entitled for the month.[9]

On an exceptional basis, in relation to 2017, an amount equal to the product obtained by multiplying $100 by the number of eligible school-aged dependent children in respect of whom an individual is an eligible individual[10] at the start of January 2018 will be added to the child assistance payment and, as the case may be, to the supplements for handicapped children and for handicapped children with exception care needs to which the individual is entitled for the month.[11]

For greater clarity, the supplement for the purchase of school supplies will be granted irrespective of the eligible individual's family income.

▪ Annual adjustment

The $100 supplement for the purchase of school supplies will be adjusted automatically each year as of 2019.

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8 An eligible individual is an individual to whom a child assistance payment in respect of an eligible school-aged dependent child is made for the month. Briefly, this means that the individual must reside with the child at the beginning of the month, be the father or mother of the child, be resident in Québec, have a recognized status such as Canadian citizen or permanent resident (or the individual's spouse must have such a status) and not be exempt from tax.

9 For greater clarity, where the amount of the child assistance payment in respect of a child for the month is made only in part to an individual, because of shared custody, the amount of the supplement for the purchase of school supplies to which the individual is entitled will correspond to half of the amount to which the individual would have been entitled had the child not been in a shared custody arrangement.

10 See note 8.

11 See note 9.

As with the adjustment of the main parameters of the personal income tax system, the index to be used with respect to the supplement will correspond to the percentage change in the overall average Québec consumer price index without alcoholic beverages and tobacco products (QCPI-WAT) for the 12-month period ending on September 30 of the year preceding the one for which the amount is to be adjusted, compared to the average QCPI-WAT for the 12-month period ended on September 30 of the year prior to the year preceding the one for which the amount is to be adjusted.

This index will be applied, for a particular year, to the previous year's value of the amount subject to adjustment. For greater clarity, if the result obtained by applying the index is not a multiple of 1, it will be adjusted to the nearest multiple of 1 or, if it is equidistant from two multiples of 1, to the nearest higher multiple of 1.

■ Eligible school-aged dependent child

For a year subsequent to 2017, an eligible school-aged dependent child will be a child in respect of whom a child assistance payment is made for July of that year and who is at least 4 years of age and not more than 16 years of age on September 30 of that year.

However, in the case of a child in respect of whom a supplement for handicapped children is paid for July of the year, the child must be at least 4 years of age and not more than 17 years of age on September 30 of that year.

In relation to 2017, an eligible school-aged dependent child will mean a child in respect of whom a child assistance payment is made for January 2018 and who was at least 4 years of age and not more than 16 years of age on September 30, 2017.

However, in the case of a child in respect of whom a supplement for handicapped children is paid for January 2018, the child must have been at least 4 years of age and not more than 17 years of age on September 30, 2017.

■ Payment of the supplement for the purchase of school supplies

Since the new supplement for the purchase of school supplies will be granted as part of the RTCCA only for July of a taxation year, and to avoid any confusion with the other components of the RTCCA, which may be granted for each month in the year, Retraite Québec will pay for July the portion of the RTCCA amount that is attributable to the supplement for the purchase of school supplies to which an individual is entitled separately from the portion of the RTCCA that is attributable to the other components.

This will also be the case with the payment of the portion of the RTCCA amount for January 2018 that is attributable to the supplement for the purchase of school supplies granted for 2017.

3. Enhancement of the refundable tax credit attributing a work premium

To support and value work effort and encourage people to give up social assistance and enter the labour market, the tax system grants low- and middle-income households a work premium in the form of a refundable tax credit.

Two work premiums are granted under this tax credit. The first one is for households whose capacity for employment is not severely limited (hereinafter, the "general work premium"), while the second one is for households whose capacity for employment is severely limited (hereinafter, the "adapted work premium").

A monthly supplement of $200 for long-term recipients giving up social assistance (hereinafter, the "supplement to the work premium") may be combined with either of these work premiums.

In general, the tax credit is for any individual[12] who is resident in Québec at the end of a year, provided the individual, at that time, has a recognized status (such as Canadian citizen or permanent resident) and is a person of full age, an emancipated minor within the meaning of the *Civil Code of Québec*, the spouse of another individual, or the father or mother of a child with whom the individual resides.

The work premiums granted under the tax credit are reduced on the basis of family income and determined by taking into account eligible work income and household composition.

The maximum amount that may be granted as a work premium for a year is equal to the amount obtained by applying, to the amount representing the amount by which the lesser of the household's eligible work income[13] and the reduction threshold applicable to the household exceeds excluded work income,[14] the rate set in its regard.

The reduction based on family income is 10% for each dollar of a household's family income that exceeds the applicable reduction threshold.

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[12] However, no amount is granted under the tax credit to a person who, at the end of the year, was confined to a prison or similar institution for one or more periods totalling more than six months, a person entitled to tax relief for the year or a person with no children who was a full-time student during the year.

[13] Briefly, a household's eligible work income means the income of an individual and, as the case may, the individual's eligible spouse, from an office or employment or from the carrying on of a business.

[14] Excluded work income stands at $2 400 for a person living alone and $3 600 for a couple, for the purpose of calculating the general work premium, and at $1 200 in all cases, for the purpose of calculating the adapted work premium.

The reduction thresholds of the work premiums are adjusted annually. Briefly, the reduction threshold applicable to a typical household for a particular year corresponds to the higher of the reduction threshold applicable to the household for the previous year and the amount established for the year as the cut-off threshold of the Social Assistance Program[15] for the purpose of the general work premium, and as the cut-off threshold of the Social Solidarity Program for the purpose of the adapted work premium.[16]

As part of the third Plan to Combat Poverty and Social Exclusion, the government intends to initiate new, concrete actions to combat poverty and mitigate its effects. Three measures will therefore be taken to enhance the refundable tax credit attributing a work premium, and will affect the general work premium, the adapted work premium and the supplement to the work premium.

❑ Increase in the rate for calculating the general work premium and the adapted work premium for households without children

To continue reducing poverty with respect to households without children and further increase the incentive to work, the tax legislation will be amended to gradually raise the rate, applicable to this type of household, for calculating the maximum amount under the general work premium and the maximum amount under the adapted work premium.

■ General work premium

In the case of the general work premium for households without children, the existing rate of 9% will be raised by 1.8 percentage points over five years, to 10.8% in 2022.

The following table shows the increase in the rate for calculating the general work premium for households without children for each of the years from 2018 to 2022.

TABLE

Rate for calculating the general work premium for households without children
(per cent)

	2017	2018	2019	2020	2021	2022
Rate	9.0	9.4	9.7	10.0	10.4	10.8
Increase	n/a	0.4	0.7	1.0	1.4	1.8

15 This last resort financial assistance program is provided for in the *Individual and Family Assistance Act* (CQLR, chapter A-13.1.1). The purpose of the program is to grant last resort financial assistance to persons whose capacity for employment is not severely limited and encourage such persons to engage in activities promoting their entry on the labour market or their social and community participation.

16 This last resort financial assistance program is provided for in the *Individual and Family Assistance Act*. While granting last resort financial assistance to persons whose capacity for employment is severely limited, the purpose of the program is to foster the inclusion and social participation of such persons and their active contribution to society.

■ Adapted work premium

In the case of the adapted work premium for households without children, the existing rate of 11% will also be raised by 1.8 percentage points over five years, to 12.8% in 2022.

The following table shows the increase in the rate for calculating the adapted work premium for households without children for each of the years from 2018 to 2022.

TABLE

Rate for calculating the adapted work premium for households without children
(per cent)

	2017	2018	2019	2020	2021	2022
Rate	11.0	11.4	11.7	12.0	12.4	12.8
Increase	n/a	0.4	0.7	1.0	1.4	1.8

❑ Easing of the eligibility criteria for the supplement to the work premium

Briefly, an individual may receive a supplement to the work premium of $200 for each given month included in a taxation year if, for that year, the individual is entitled to a work premium and the following conditions are met:

— the given month is included in an individual's period of transition to work that began in the year or the previous year;

— for at least 36 of the 42 months immediately preceding the start of the individual's period of transition to work in which the given month is included, the individual received last resort financial assistance benefits or financial assistance benefits under the Youth Alternative Program;

— the individual's work income for the given month is equal to or greater than $200;

— the first month of the individual's period of transition to work in which the given month is included, the individual held a valid claim booklet issued by the Minister of Employment and Social Solidarity enabling the individual to receive certain dental and pharmaceutical services, unless the individual received a financial assistance benefit under the Youth Alternative Program for the month preceding that first month.

For the purposes of these conditions, an individual's period of transition to work designates a period that begins on the first day of a given month in which the individual ceased receiving last resort financial assistance benefits or financial assistance benefits under the Youth Alternative Program because of his or her work income or that of his or her spouse, and that ends on the last day of the 11th month following the given month or, if it is prior to that, the last day of the month preceding that in which the individual began receiving either of these benefits.

To provide a stronger incentive for social assistance recipients to join the labour market, the tax legislation will be amended to shorten, as of 2018, the period during which individuals must have received social assistance for the purpose of determining their eligibility for the supplement to the work premium.

Thus, for a taxation year after 2017, the requirement respecting the period during which social assistance benefits must have been received will be met where an individual received last resort financial assistance or financial assistance under the Youth Alternative Program for at least 24 of the 30 months preceding the first month of the individual's period of transition to work.

Moreover, as of April 1, 2018, the Youth Alternative Program will end[17] and the Aim for Employment Program[18] will be introduced. The goal of the new Aim for Employment Program is to offer individualized support for labour market entry. The tax legislation will therefore be amended, as of that date, to take into account benefits received under the new program both for the purposes of the condition relating to the period during which social assistance benefits must have been received and for determining an individual's period of transition to work, with respect to the supplement to the work premium.

4. AUTOMATIC PAYMENT OF CERTAIN TAX ASSISTANCE

The tax system includes several income support measures for low- and middle-income households, such as the refundable solidarity tax credit (hereinafter, the "solidarity tax credit"), the refundable tax credit granting a work premium (hereinafter, the "work premium") and the refundable tax credit establishing a fiscal shield (hereinafter, the "fiscal shield").

The solidarity tax credit is determined in respect of a payment period, which begins on July 1 of a calendar year and ends on June 30 of the following calendar year. In general, this tax credit is granted, for a payment period, to an individual[19] who was resident in Québec at the end of the base year relating to the payment period, provided, at that time, the individual had recognized status (such as Canadian citizenship or permanent resident status) and was a person of full age, an emancipated minor within the meaning of the *Civil Code of Québec*, the spouse of an individual, or the father or mother of a child with whom the individual resided. The base year relating to a payment period is the taxation year that ended on December 31 of the calendar year that precedes the beginning of that period.

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17 However, the Youth Alternative Program will continue to apply to any person who benefits, on April 1, 2018, from financial assistance under that program, for the duration of the person's intervention plan.

18 See Chapter V of Title II of the *Individual and Family Assistance Act,* comprised of sections 83.1 to 83.14.

19 However, where an individual was confined to a prison or a similar institution at the end of the base year and had been so confined during that year for one or more periods totalling more than six months, the tax credit may not be granted to the individual for the payment period to which the base year relates. The same applies to an individual in respect of whom another person receives the refundable tax credit for child assistance, for December of that base year, unless the individual attained 18 years of age in that month.

The solidarity tax credit is composed of the following three components:

- the Québec sales tax (QST) component, which is intended to mitigate costs relating to the QST;
- the housing component, which enables the impact of costs associated with occupying an eligible dwelling to be taken into account;[20]
- the northern village component, which is intended to recognize the higher costs that must be borne by inhabitants of Québec's 14 northern villages.[21]

The QST component is itself subdivided into three elements:

- the basic amount;
- the amount for a spouse, if, at the end of the base year relating to the payment period, the individual had a cohabiting spouse[22] who, at that time, was resident in Québec and ordinarily lived with the individual;[23]
- the amount for a person living alone if, throughout the base year, the individual ordinarily lived in a self-contained domestic establishment in which no other person 18 years of age or over ordinarily lived.

After the maximum amount applicable in respect of an individual under these various components has been determined, it is reduced based on the individual's family income (the individual's net income and that of the individual's cohabiting spouse, as the case may be) for the base year relating to the payment period.

The work premium is granted for a taxation year. It is intended to support and value work effort, as well as encourage individuals to leave social assistance and enter the labour market. The work premium is composed of, as applicable, a general work premium, an adapted work premium for persons whose capacity for employment is severely limited and a supplement for long-term recipients of financial assistance who give up last resort financial assistance or leave the Youth Alternative Program.

Lastly, the fiscal shield, which is also granted for a taxation year, is designed to offset, further to an increase in work income, part of the loss of the socio-fiscal transfers made through the work premium and the refundable tax credit for childcare expenses.

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[20] Briefly, an eligible dwelling of an individual is a dwelling situated in Québec that is the individual's principal place of residence and that the individual or, as the case may be, the individual's cohabiting spouse owned, leased or subleased, except a dwelling situated in low-rental housing or a dwelling situated in a public residential and long-term care centre or in a private residential and long-term care centre which is party to an agreement.

[21] The northern villages are Akulivik, Aupaluk, Inukjuak, Ivujivik, Kangiqsualujjuaq, Kangiqsujuaq, Kangirsuk, Kuujjuaq, Kuujjuarapik, Puvirnituq, Quaqtaq, Salluit, Tasiujaq and Umiujaq.

[22] A cohabiting spouse of an individual at any time generally means the person who at that time is the individual's spouse and is not living separate and apart from the individual.

[23] In addition, the cohabiting spouse was not confined to a prison or a similar institution, or, if the cohabiting spouse was so confined, the total number of days of confinement in the year did not exceed 183 and the cohabiting spouse could not reasonably be expected to remain there throughout the following year.

Under the tax legislation, an individual interested in receiving these various forms of tax assistance must apply for them. This is done, in one case, by checking the appropriate box on a schedule to the income tax return and, in the other cases, by completing specific schedules of the income tax return (hereinafter, “particular schedules”). However, an individual may forget to check the box concerned or the particular schedules may be complex to fill out.

Thus, to make it easier for the individuals concerned to obtain the available tax assistance, and to enhance the efficiency of these income support measures, the tax legislation will be amended to remove the requirement that individuals apply for the basic amount and the amount for a spouse under the QST component of the solidarity tax credit, as well as for the work premium and the fiscal shield.

Provided Revenu Québec has at its disposal the information necessary to determine an individual’s eligibility for this tax assistance and the amounts to which the individual is entitled, Revenu Québec will be able to pay these amounts to the individual without the latter having to apply for them through Revenu Québec.

For greater clarity, the individual and, as the case may be, the individual’s spouse will be required to file their respective income tax returns for a taxation year to obtain this tax assistance for that year, but they will not have to provide the particular schedules with the returns.

These amendments will be applicable, in the case of the basic amount and the amount for a spouse under the QST component of the solidarity tax credit, in respect of the payment period beginning on July 1, 2018 and, in the case of the work premium and the fiscal shield, as of the 2018 taxation year.

For greater clarity, these changes do not apply to the rules governing advance payments of the work premium.

5. TAX TREATMENT OF NEW CONTRIBUTIONS PAID FOLLOWING THE ENHANCEMENT TO THE QUÉBEC PENSION PLAN AND THE CANADA PENSION PLAN

The Québec Pension Plan (QPP) and the Canada Pension Plan (CPP) are public plans designed to partially replace a worker's work income upon the retirement, disability or death of the worker.

These public plans are funded through contributions that employees, employers and self-employed workers must pay. In the case of the Québec plan, individuals who are responsible for a family-type resource[24] or an intermediate resource[25] have been able to be members of the plan since 2012, although their remuneration is not required to be included in the calculation of their income.[26]

These two plans, in which membership is mandatory, cover almost all workers, be they employees or self-employed. By granting benefits established on the basis of pensionable earnings registered on behalf of each worker they cover, up to a certain maximum, these plans provide workers and their families with basic financial protection.

As a rule, employees must, depending on where they work, pay a contribution to the QPP or the CPP, by deduction at source from the salary and wages paid to them by their employer.

The amount of the contribution an employer must deduct at source for an employee must be determined according to the *Regulation respecting contributions to the Québec Pension Plan*[27] where the employee works in Québec or, if he works elsewhere in Canada, according to the *Canada Pension Plan Regulations*.[28]

Briefly, these regulations stipulate that the amount that, for a given pay period, must be deducted at source for an employee corresponds to the product obtained by multiplying the contribution rate for employees for the year by the amount by which the salary and wages paid to such employee for the pay period exceeds the portion of the basic exemption attributable to such period. However, the total of the amounts an employer must deduct at source from the salary and wages it pays to one of its employees during a year must not exceed the product obtained by multiplying the employee's maximum contributory earnings for the year[29] by the applicable contribution rate.

[24] In general, family-type resources consist of foster families for young people under age 18 and foster homes for adults and elderly persons.

[25] In general, individuals are responsible for an intermediate resource if they receive in their principal place of residence a maximum of nine users, within the meaning of the *Act respecting health services and social services* (CQLR, chapter S-4.2), entrusted to them by one or more public institutions and, in the temporary absence of users, they maintain their principal place of residence a residence for such users.

[26] *Taxation Act* (CQLR, chapter I-3), s. 489, para. (*c*.2).

[27] CQLR, chapter R-9, r. 2.

[28] C.R.C., c. 385.

[29] The maximum contributory earnings of a worker for a year are equal to his maximum pensionable earnings for the year less his personal exemption for the year.

Employers must pay a contribution, (hereinafter, the “employer contribution”), equal to that of their employees, which they must deduct at source and which must be made in accordance with the *Regulation respecting contributions to the Québec Pension Plan* and the *Canada Pension Plan Regulations*.

Self-employed workers, depending on whether they reside in Québec or elsewhere in Canada, are subject to payment of a contribution to the QPP or the CPP on their self-employed earnings.

While the QPP and the CPP are not identical in all respects, they have been considered similar plans since their creation. As a result, they have always been administered so as to facilitate worker mobility throughout Canada. To that end, the retirement, disability and survivor’s benefits they provide take into account the pensionable earnings of workers on which contributions were paid, regardless of the plan to which the contributions were paid.

However, since 2012, the applicable rate for the purpose of calculating QPP contributions has been different from the one used to calculate CPP contributions. This disparity between the contribution rates in no way compromises the similar nature of the two plans.

❑ Proposed enhancement to the Québec Pension Plan

A reflection process was undertaken a few years ago and focuses on two areas: the sustainability of the QPP, and its enhancement with a view to providing retirees with an adequate income, taking into account various factors, such as longer life expectancy, the demographic curve and changes in the labour market.

On November 2, 2017, a bill to enhance the QPP was introduced in the National Assembly.[30] This bill flows from a collective discussion in which citizens, groups and organizations were asked to give their views on the improvements proposed on behalf of future generations of retirees, and on the measures presented to bolster the sustainability of the plan.

More specifically, the bill proposes to enhance the existing plan by introducting an additional plan in two stages, the first as of 2019, and the second as of 2024. Under the additional plan, a first additional contribution will be required on the pensionable earnings of a worker,[31] up to the worker’s maximum contributory earnings.[32] The additional plan also provides for a second additional contribution on a worker’s pensionable earnings that exceed the worker’s maximum pensionable earnings, up to the worker’s additional maximum contributory earnings. The bill proposes that, for the year 2024, the amount of the additional maximum pensionable earnings be equal to 107% of the maximum pensionable earnings for that year, and that, for each year subsequent to the year 2024, it be equal to 114% of the maximum pensionable earnings for the year.

Lastly, the existing plan, that is, the current plan without taking into account the enhancement, is called the “base plan,” and current employee contributions to the plan are called base contributions.

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30 Bill 149, *An Act to enhance the Québec Pension Plan and to amend various retirement-related legislative provisions*.

31 “Worker” includes an individual engaged in self-employment, a family-type resource, an intermediate resource or an employee.

32 See note 29.

❑ Canada Pension Plan

On December 15, 2016, the statute containing the amendments required to implement the CPP enhancement received Royal assent. The parameters of that enhancement and the proposed QPP enhancement are the same.

The following table presents the impacts on the contributions of the proposed QPP enhancement and of the enhanced CPP.

TABLE

Impacts on the contributions of the enhancement to the public pension plans

	QPP	CPP
Gradual increase in the first additional contribution	2019-2023	2019-2023
Introduction of a second additional contribution for income exceeding the maximum pensionable earnings(1)	As of 2024	As of 2024
Combined rate on the first additional contribution on full implementation	2.0% income ≤ MPE(2)	2.0% income ≤ MPE(2)
Combined rate on the second additional contribution	8.0% AMPE(3) ≥ income > MPE(2)	8.0% AMPE(3) ≥ income > MPE(2)

(1) Up to the additional maximum pensionable earnings.
(2) Maximum pensionable earnings.
(3) Additional maximum pensionable earnings.

❑ Deductibility of additional contributions to the QPP and the CPP

The tax legislation will be amended to provide that an individual may deduct, in the calculation of the individual's income for a year, the amounts payable by the individual for the year as the first additional contribution and the second additional contribution to the QPP, or to any similar plan, on the individual's income from an office or employment, unless the income from the office or employment is not required to be included in the calculation of the individual's income for the year or the income is deductible in the calculation of the individual's taxable income for the year.

The tax legislation will also be amended to provide that an individual may deduct, in the calculation of the individual's income for a year, the aggregate of the amounts payable by the individual for the year as the first additional contribution and the second additional contribution to the QPP, or to any similar plan, on the individual's self-employed earnings, unless the income from self-employment is not required to be included in the calculation of the individual's income for the year or the income is deductible in the calculation of the individual's taxable income for the year.

For greater clarity, the amount that may be deducted in respect of the first and second additional QPP contributions, or of such additional contributions paid to any similar plan, by an employee and by a self-employed worker will be limited to the maximum amount of contributions payable in this regard by the taxpayer for the year under the plan. Accordingly, an individual may not deduct a first or second additional contribution that exceeds the maximum amount.[33]

❑ Clarifications respecting employer QPP or CPP contributions for the purposes of other tax measures

In certain situations, the tax legislation allows an individual to deduct, in the calculation of the individual's employment income, the salary paid to an assistant or substitute, as well as certain employer QPP contributions, or employer contributions to any similar plan, payable by the individual in respect of that salary.

The tax legislation also grants employers in the restaurant and hotel sector a refundable tax credit respecting various costs, such as employer QPP contributions, relating to tips received by their employees in the performance of their duties, namely, the tax credit in respect of tip reporting.

Lastly, the tax system grants a refundable tax credit to individuals aged 70 or over who obtain certain home support services from a contractor or their own employee. In the case of an employee of the individual, eligible expenses for the purpose of calculating the tax credit include employer QPP contributions.

While no legislative amendments would be necessary if the proposed amendments to the QPP were passed as worded in the bill introduced on November 2, 2017, certain clarifications are appropriate. In this regard, for the purposes of the deduction available in the calculation of an individual's employment income, the employer contribution payable to the QPP, or to any similar plan, will include any contribution by the individual equal to the first and second additional contributions payable by the individual's assistant or substitute.

Similarly, for the purpose of calculating the tax credit in respect of tip reporting and the tax credit for home support for seniors, the employer contribution payable to the QPP will include any contribution by the individual equal to the first and second additional contributions to the QPP payable by the individual's employee.

❑ Application date

These amendments will come into force on January 1, 2019, provided, with respect to the first and second additional contributions payable to the QPP and the employer contributions equal to these contributions, the amendments to the tax legislation are passed only after the act implementing the QPP enhancement receives assent, taking into account any technical amendments that may be made to the enhancement before assent.

33 Briefly, an employee, for example, may have made an overpayment in 2019, where the aggregate of the deductions at source from the employee's salary and wages under the QPP, or the CPP, exceeds the aggregate of the base contribution and the first additional contribution payable by the employee for that year.