

## TAX MEASURES ANNOUNCED AT THE TIME OF THE TABLING OF THE SUPPORT PLAN FOR QUÉBEC BUSINESSES

This information bulletin explains in detail the tax measures announced in the support plan for Québec businesses, presented today.

Thus, in order to support businesses affected by the tariffs recently imposed, amendments to the tax legislation will be made to enhance the tax credit for investments relating to manufacturing and processing equipment and accelerate the reduction of the Health Services Fund that was announced when the March 2018 Québec Economic Plan was tabled.

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](http://www.finances.gouv.qc.ca).

## TAX MEASURES ANNOUNCED AT THE TIME OF THE TABLING OF THE SUPPORT PLAN FOR QUÉBEC BUSINESSES

---

<b>1. TEMPORARY INCREASE IN THE TAX CREDIT FOR INVESTMENTS RELATING TO MANUFACTURING AND PROCESSING EQUIPMENT .....</b>	<b>3</b>
1.1 Change in the definition of “qualified property” .....	4
1.2 Increase in the rates of the tax credit for investments .....	5
1.3 Temporary additional increase in the rate of the tax credit for investments .....	7
<b>2. REDUCTION OF THE HEALTH SERVICES FUND CONTRIBUTION RATE FOR ALL SMALL AND MEDIUM-SIZED BUSINESSES (SMBS) .....</b>	<b>11</b>

## 1. TEMPORARY INCREASE IN THE TAX CREDIT FOR INVESTMENTS RELATING TO MANUFACTURING AND PROCESSING EQUIPMENT

Briefly, a qualified corporation, for a taxation year, that acquires qualified property may claim the tax credit for investments relating to manufacturing and processing equipment (hereafter, the “tax credit for investments”) in respect of eligible expenses it incurred, in excess of \$12 500, to acquire the property.<sup>1</sup>

The base rate of the tax credit for investments is 4%. It can be increased up to 24% where the qualified property is acquired for use mainly in a remote zone,<sup>2</sup> 16% where the qualified property is acquired for use mainly in the eastern part of the Bas-Saint-Laurent administrative region,<sup>3</sup> and 8% where the qualified property is acquired for use mainly in an intermediate zone.<sup>4</sup>

The tax credit for investments to which a qualified corporation is entitled, for a taxation year, may be deducted from its total taxes for that year. The portion of the tax credit for investments relative to a taxation year that cannot be used to reduce the corporation’s total taxes for the taxation year may be refunded, in whole or in part, or carried forward.

For a qualified corporation to benefit fully from a higher rate and the refundable nature of the tax credit for a taxation year, its paid-up capital for such taxation year must not exceed \$250 million.<sup>5</sup> The increase in the rate of the tax credit and the refundable portion of the tax credit decrease linearly for paid-up capital between \$250 million and \$500 million. A corporation whose paid-up capital reaches \$500 million may receive only the base rate of 4%, and no part of the tax credit is refundable.

In addition, a qualified corporation can benefit from a higher rate and the refundable nature of the tax credit for investments, for a taxation, year only in regard to the eligible expenses it incurred that do not exceed a cumulative limit of \$75 million.<sup>6</sup>

---

<sup>1</sup> A qualified corporation that is a member of a qualified partnership that acquires qualified property may claim the tax credit for investments in proportion to its share of the partnership’s income or loss.

<sup>2</sup> Remote zones consist of the following administrative regions: Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie-Îles-de-la-Madeleine.

<sup>3</sup> The eastern part of the Bas-Saint-Laurent administrative region consists of the following regional county municipalities (RCMs): La Matapédia, La Mitis and La Matanie.

<sup>4</sup> Intermediate zones consist of the following administrative regions and RCMs: the Saguenay-Lac-Saint-Jean administrative region, the Mauricie administrative region, the Antoine-Labelle RCM, the Kamouraska RCM, the La Vallée-de-la-Gatineau RCM, the Les Basques RCM, the Pontiac RCM, the Rimouski-Neigette RCM, the Rivière-du-Loup RCM and the Témiscouata RCM.

<sup>5</sup> Where the qualified corporation is a member of an associated group in the taxation year, the rate of the tax credit and its refundability are determined according to the corporation’s paid-up capital and that of each member of the associated group, according to the usual rules.

<sup>6</sup> A \$75-million cumulative limit also applies to eligible expenses of a qualified partnership enabling a qualified corporation that is a member of the partnership to take advantage of a higher rate and the refundability of the tax credit for investments.

Qualified property, for the purposes of the tax credit for investments, is property included in Class 53 of Schedule B of the *Regulation respecting the Taxation Act*, property included in Class 43 of the Schedule, property included in Class 50 of the Schedule that is used mainly for manufacturing or processing of goods for sale or lease, or property acquired after March 20, 2012 for use mainly in the course of smelting, refining or hydrometallurgy activities involving ore other than that from a gold or silver mine, and extracted from a mineral resource located in Canada.<sup>7</sup> Among other things, the property must have been acquired before January 1, 2023 to be used mainly in a remote zone, the eastern part of the Bas-Saint-Laurent administrative region or an intermediate zone (hereinafter, “resource regions”), for use solely in Québec and, prior to its acquisition, it must not have been used for any purpose nor acquired to be used or leased for any purpose whatsoever.

Québec businesses are currently faced with an increasing degree of uncertainty, which may influence their investment decisions.

To encourage businesses to pursue their investment projects, the tax credit for investments will be temporarily enhanced. The definition of “qualified property” will therefore be amended to include property acquired for use in Québec, but outside resource regions, provided other conditions otherwise applicable are met. The base rate for the tax credit for investments and the rise in the rate of the tax credit applicable in the various resource regions will be increased. In addition, an increase in the rate of the tax credit will be added for qualified property acquired for use in Québec, but outside resource regions. Lastly, an additional increase will be granted, under certain conditions, to qualified property acquired before January 1, 2020 by a qualified corporation or a qualified partnership in the metal processing sector.

## 1.1 Change in the definition of “qualified property”

The tax legislation will be amended so that property acquired for use in Québec, but outside a resource region, can also be recognized as “qualified property,” provided it is used solely in Québec and meets other conditions provided for elsewhere.

### □ Application date

The amendment to the tax legislation will apply in respect of a property acquired after the day of publication of this information bulletin, but before January 1, 2020. However, it will not apply to a property:

- acquired in accordance with a written obligation entered into on or before the day of publication of this information bulletin;
- whose construction by the corporation or partnership, or on its behalf, was under way on the day of publication of this information bulletin.

---

<sup>7</sup> Property included in Class 29 of Schedule B of the *Regulation respecting the Taxation Act*, and property included in Class 52 of such schedule used mainly for manufacturing or processing of goods for sale or lease could also be qualified property.

In addition, expenses incurred regarding the qualified property acquired to be used in Québec, but outside a resource region, must, to qualify as “eligible expenses” for the tax credit for investments, be incurred after the day of publication of this information bulletin, but before January, 1, 2020.

## **1.2 Increase in the rates of the tax credit for investments**

The tax legislation will be amended to increase, temporarily, rates of the tax credit for investments.

The base rate of the tax credit for investments will thus be increased, by one percentage point, to 5%.

There will also be a rise in the rates of increase for the tax credit for investments, which will allow the rate of the tax credit to reach 40% for qualified property acquired for use mainly in a remote zone, 30% where the qualified property is acquired for use mainly in the eastern part of the Bas-Saint-Laurent administrative region, and 20% where the qualified property is acquired for use mainly in an intermediate zone.

The base rate of the tax credit for investments will be increased temporarily by five percentage points for qualified property acquired for use in Québec, but outside a resource region. Thus, the tax credit for investments regarding such qualified property could reach 10%. This increase of five percentage points will be subject to the same rules as those applicable to the other increases.

The following table presents the maximum rates of the tax credit for investments before, with, and after the temporary increase.

TABLE 1

**Rates of the tax credit for investments before, with, and after the temporary increase**  
(as a percentage)

Place where the property acquired is to be mainly used	Rates applicable until the day of publication of this information bulletin		Rates applicable after the day of publication of this information bulletin, but before January 1, 2020		Rates applicable after December 31, 2019	
	Paid-up capital of \$250 million or less <sup>(1),(2)</sup>	Paid-up capital of \$500 million or more <sup>(1)</sup>	Paid-up capital of \$250 million or less <sup>(1),(2)</sup>	Paid-up capital of \$500 million or more <sup>(1)</sup>	Paid-up capital of \$250 million or less <sup>(1),(2)</sup>	Paid-up capital of \$500 million or more <sup>(1)</sup>
Remote zones	24	4	40	5	24	4
Eastern part of the Bas-Saint-Laurent administrative region	16	4	30	5	16	4
Intermediate zones	8	4	20	5	8	4
Other regions in Québec	—	—	10	5	—	—

(1) Where the qualified corporation is a member of an associated group, paid-up capital is determined according to the paid-up capital of the qualified corporation and that of each member of the associated group, according to the usual rules.

(2) Only eligible expenses incurred that do not exceed a cumulative limit of \$75 million give rise to the increased rate and the refundability of the tax credit for investments.

For example, the rate of the tax credit for investments that will apply to a qualified corporation with paid-up capital of \$300 million for a taxation year, regarding its eligible expenses for that year, that relate to a qualified property acquired for use in Québec but not in a resource region, will be 9%.<sup>8</sup>

## □ Application date

These changes will apply regarding eligible expenses incurred by a qualified corporation or a qualified partnership after the day of publication of this information bulletin, but before January 1, 2020, in regard of a qualified property acquired after the day of publication of this information bulletin, but before January 1, 2020.

<sup>8</sup> The rate of 9% corresponds to base rate of the tax credit for investments (5%) and the increase in the rate of the tax credit applicable to the qualified corporation regarding its eligible expenses incurred in relation to qualified property acquired for use in Québec but not in a resource region (5%), which is reduced based on the paid-up capital of the qualified corporation. The tax credit for investments is therefore equal to:  $\{10\% - [5\% \times (\$300 \text{ million} - \$250 \text{ million}) / \$250 \text{ million}]\}$ . The rate of 9% will apply with regard to eligible expenses provided the qualified corporation has not reached the \$75 million limit on eligible expenses that can benefit from the increased rate and the refundable nature of the tax credit.

However, they do not apply to property:

- acquired in accordance with a written obligation entered into on or before the day of publication of this information bulletin;
- whose construction by the corporation or partnership, or on its behalf, was under way on the day of publication of this information bulletin.

### **1.3 Temporary additional increase in the rate of the tax credit for investments**

The tax legislation will be amended so that a qualified corporation, for a taxation year, may benefit, for that year, from an additional increase in the rate of the tax credit for investments of up to five percentage points regarding expenses eligible for the temporary additional increase, for the taxation year, and its share of the expenses eligible for the temporary additional increase, for a fiscal period, of a qualified partnership of which it is a member at the end of the fiscal period of such partnership ending in such taxation year, where the qualified property is acquired for use mainly in a resource region. The temporary additional increase in the rate of the tax credit for investments could reach ten percentage points regarding expenses eligible for the temporary additional increase where the qualified property is acquired for use in Québec, but not in a resource region.

The temporary additional increase will be added to the rate of the tax credit for investments the qualified corporation may claim regarding its eligible expenses or its share of the eligible expenses of a qualified partnership for the taxation year, determined according to the rules applicable to the tax credit for investments.

#### **☐ Expenses eligible for the temporary additional increase**

The expression “expenses eligible for the temporary additional increase” of a qualified corporation, for a taxation year, means the expenses that are “eligible expenses”, for the taxation year, for the purposes of the tax credit for investments and that are incurred by the qualified corporation, for a taxation year, when it is a qualified corporation in the metal processing sector.

Where the expenses are incurred by a qualified partnership, the expression “expenses eligible for the temporary additional increase”, for a fiscal period, means the expenses that are “eligible expenses”, for the fiscal period, for the purposes of the tax credit for investments, and that are incurred by the qualified partnership for a fiscal period in which it is a qualified partnership in the metal processing sector.

#### **☐ Qualified corporation in the metal processing sector**

The expression “qualified corporation in the metal processing sector” means, for a taxation year, a qualified corporation, as defined for the purposes of the tax credit for investments, whose proportion of metal processing activities (PMPA), for the taxation year, exceeds 50%.

## ❑ Qualified partnership in the metal processing sector

The expression “qualified partnership in the metal processing sector” means, for a fiscal period, a qualified partnership, as defined for the purposes of the tax credit for investments, whose PMPA, for the fiscal period, exceeds 50%.

## ❑ Proportion of metal processing activities (PMPA)

The PMPA of a qualified corporation, for a taxation year, or of a qualified partnership, for a fiscal period, corresponds to the result obtained by applying the following formula:

$$\text{PMPA} = \frac{\text{SWMT}}{\text{SW}}$$

Where :

- SWMT corresponds to salaries or wages related to metal processing activities for the taxation year or the fiscal period, as the case may be;
- SW corresponds to salaries or wages, for the taxation year or the fiscal period, as the case may be.

## ■ Salaries or wages

To calculate the PMPA of a qualified corporation, for a taxation year, or of a qualified partnership, for a fiscal period, as the case may be, the expression “salaries or wages” means all the salaries or wages incurred by the qualified corporation or the qualified partnership, regarding its employees for the taxation year or the fiscal period, as the case may be.<sup>9</sup>

## ■ Salaries or wages related to metal processing activities

To calculate the PMPA of a qualified corporation, for a taxation year, or of a qualified partnership, for a fiscal period, as the case may be, the expression “salaries or wages related to metal processing activities” means the aggregate of all amounts each of which is equal to the portion of the salary or wage incurred for an employee by the qualified corporation, for the taxation year, or by the qualified partnership, for the fiscal period, represented by dividing the time that employee spends on the metal processing activities for the qualified corporation, during the taxation year, or for the qualified partnership, during the fiscal period, by the employee’s total work time during the taxation year or the fiscal period.

To that effect, an employee who devotes more than 90% of his work time to the metal processing activities of the qualified corporation, for a taxation year, or of the qualified partnership, for a fiscal period, is deemed to devote all of his time to such duties for the taxation year or the fiscal period, as the case may be.

---

<sup>9</sup> These are salaries and wages established according to Chapters I and II of Title II of Book III of Part I of the *Taxation Act*. However, salaries and wages do not include remuneration based on profits or a bonus, as the case may be, where it relates to an employee who either is a shareholder of the corporation and owns, directly or indirectly, at any time during the taxation year of the corporation, at least 10% of the issued shares of any class of the capital stock of the corporation or of any other corporation related to it, or is a member of the partnership and is entitled, directly or indirectly, to a share of at least 10% of the partnership’s income or loss.

### ■ Metal processing activities

For the purpose of the application of the temporary additional increase in the rate of the tax credit for investments, the metal processing activities of a qualified corporation, for a taxation year, or of a qualified partnership, for a fiscal period, are the activities mentioned hereinafter of the qualified corporation or partnership:

- primary metal manufacturing activities included in code 331 of the North American Industry Classification System (NAICS);<sup>10</sup>
- fabricated metal product manufacturing activities included in NAICS code 332.

### □ Calculation of the rate of the temporary additional increase

The temporary additional increase in the rate of the tax credit for investments that a qualified corporation may claim, for a taxation year, regarding expenses eligible for the temporary additional increase, for the taxation year, and its share of the expenses eligible for the temporary additional increase of a qualified partnership, for a fiscal period ending in the taxation year, will, where the qualified corporation's paid-up capital does not exceed \$250 million, for the taxation year, be equal to the following:

- where the eligible expenses are incurred regarding qualified property acquired for use mainly in a resource region: five percentage points;
- where the eligible expenses are incurred regarding qualified property other than property acquired for use mainly in a resource region: ten percentage points.

Where the paid-up capital of the qualified corporation for a taxation year exceeds \$250 million, but is less than \$500 million, the rate of the temporary additional increase it may claim for that year regarding expenses eligible for the temporary additional increase, for the taxation year, and its share of the expenses eligible for the temporary additional increase of a qualified partnership, for the fiscal period ending in the taxation year, will be reduced linearly, according to the usual rules. Accordingly, a corporation whose paid-up capital reaches \$500 million, for a taxation year, may not claim the temporary additional increase in the rate of the tax credit for investments for that year.

Where a qualified corporation is a member of an associated group during a taxation year, the rate of the temporary additional increase applicable to it regarding qualified property for the taxation year is determined according to the corporation's paid-up capital and that of each member of the associated group, according to the usual rules.

The following table presents the maximum rates of the tax credit for investments before, with, and after the temporary increase for a qualified corporation in the metal processing sector or a qualified corporation that is a member of a qualified partnership in that sector.

<sup>10</sup> The description of these codes is available on the Statistics Canada website at [www150.statcan.gc.ca/n1/pub/12-501-x/12-501-x2016002-eng.pdf](http://www150.statcan.gc.ca/n1/pub/12-501-x/12-501-x2016002-eng.pdf).

TABLE 2

**Rates of the tax credit for investments by a qualified corporation in the metal processing sector or member of a qualified partnership in the metal processing sector before, with, and after the temporary increase**  
(as a percentage)

Place where the property acquired is to be mainly used	Rates applicable until the day of publication of this information bulletin		Rates applicable after the day of publication of this information bulletin, but before January 1, 2020		Rates applicable after December 31, 2019	
	Paid-up capital of \$250 million or less <sup>(1),(2)</sup>	Paid-up capital of \$500 million or more <sup>(1)</sup>	Paid-up capital of \$250 million or less <sup>(1),(2)</sup>	Paid-up capital of \$500 million or more <sup>(1)</sup>	Paid-up capital of \$250 million or less <sup>(1),(2)</sup>	Paid-up capital of \$500 million or more <sup>(1)</sup>
Remote zones	24	4	45	5	24	4
Eastern part of the Bas-Saint-Laurent administrative region	16	4	35	5	16	4
Intermediate zones	8	4	25	5	8	4
Other regions in Québec	—	—	20	5	—	—

(1) Where the qualified corporation is a member of an associated group, paid-up capital is determined based on the paid-up capital of the qualified corporation and that of each member of the associated group, according to the usual rules.

(2) Only eligible expenses incurred that do not exceed a cumulative limit of \$75 million give rise to the increased rate, the temporary additional increase and the refundability of the tax credit for investments.

For example, the rate of the tax credit for investments that will apply to a qualified corporation with paid-up capital of \$375 million, for a taxation year, as regards expenses eligible for the temporary additional increase, for the taxation year, that relate to qualified property acquired for use mainly in a remote zone will be 25%.<sup>11</sup>

### □ Effect of the cumulative limit of \$75 million on the temporary additional increase

Where, because the cumulative limit of \$75 million of eligible expenses, a qualified corporation may not claim the higher tax credit or benefit from its refundable nature, for a taxation year, regarding all or part of its eligible expenses for the taxation year, or all or part of its share of the eligible expenses of a qualified partnership, for a fiscal period ending in the taxation year, such eligible expenses regarding which it may not claim such benefits for the taxation year may not give rise to the temporary additional increase in the rate of tax credit for investments.

<sup>11</sup> The rate of 25% corresponds to the total of the base rate of the tax credit for investments (5%), the increase in the rate of the tax credit applicable to the qualified corporation regarding its eligible expenses incurred in relation to qualified property acquired for use mainly in a remote zone (35%), and the temporary additional increase in the tax credit (5%), which increases are reduced based on the paid-up capital of the qualified corporation. The tax credit for investments is therefore equal to:  $\{45\% - [40\% \times (\$375 \text{ million} - \$250 \text{ million}) / \$250 \text{ million}]\}$ . The rate of 25% will apply regarding expenses eligible for the temporary additional increase provided the qualified corporation has not reached the \$75 million limit on eligible expenses that can benefit from the increased rate and the refundable nature of the tax credit.

## □ Application date

To qualify as “expenses eligible for the temporary additional increase,” the eligible expenses must be incurred by a qualified corporation or a qualified partnership after the day of publication of this information bulletin, but before January 1, 2020, in regard of a qualified property acquired after the day of publication of this information bulletin, but before January 1, 2020.

However, such property must not be property:

- acquired in accordance with a written obligation contracted on or before the day of publication of this information bulletin;
- whose construction by the corporation or partnership, or on its behalf, was under way on the day of publication of this information bulletin.

## 2. REDUCTION OF THE HEALTH SERVICES FUND CONTRIBUTION RATE FOR ALL SMALL AND MEDIUM-SIZED BUSINESSES (SMBs)

Under the *Act respecting the Régie de l'assurance maladie du Québec*,<sup>12</sup> an employer must pay a contribution to the Health Services Fund (HSF) in respect of the wages that the employer pays to the employer's employee who reports for work at the employer's establishment in Québec, that the employer is deemed to pay to the employee or that the employer pays in respect of the employee, or to the employer's employee to whom those wages, if the employee is not required to report for work at an establishment of the employer, are paid, deemed to be paid or paid in respect of the employee from such an establishment in Québec.

Currently, the contribution payable for a year to the HSF must be calculated at a rate of 4.26%, unless the employer is a specified employer for the year and the employer's total payroll<sup>13</sup> is less than the total payroll threshold applicable for the year, which is \$5-million for 2018.

Briefly, a specified employer for a year is an employer<sup>14</sup> that has an establishment in Québec in the year and that is not the state, the government of another province or the Government of Canada, or an employer that, at a particular time in the year, is:

- a mandatory body of the state, the government of another province or the Government of Canada;
- a municipality or a mandatory body of a municipality;
- a municipal or public body performing a function of government or a mandatory body of such a body;

---

<sup>12</sup> CQLR, chapter R-5.

<sup>13</sup> The term “total payroll” is defined in the first paragraph of section 33 of the *Act respecting the Régie de l'assurance maladie du Québec*. Essentially, an employer's total payroll for a year means the aggregate of the wages paid or deemed to be paid in the year by the employer and by any other employer with which the employer is associated at the end of the year and that, at that time, carries on a business in which it ordinarily employs, for all or part of the year, at least one employee, whether full-time or part-time.

<sup>14</sup> For the purposes of the employer contribution to the HSF, a partnership may be considered an employer, on the same basis as a legal person or an individual.

— a corporation, commission or association exempt from tax under section 985 of the *Taxation Act*.

Since 2015, eligible specified employers have used a reduced rate to calculate their contribution to the HSF,<sup>15</sup> in an effort to encourage SMBs in the primary and manufacturing sectors most susceptible to competition.

An eligible specified employer is any employer that, for a particular year, is a specified employer whose total payroll for the year is less than the total payroll threshold applicable for the year, provided more than 50% of the employer's total payroll for the year is attributable to activities in the agriculture, forestry, fishing and hunting sector, the mining, quarrying and oil and gas extraction sector and the manufacturing sector that are grouped under codes 11, 21 or 31 to 33 of the North American Industry Classification System (NAICS).<sup>16</sup>

At the time of Budget Speech 2018-2019,<sup>17</sup> a gradual reduction of the contribution rate for all SMBs was announced. As a result, the applicable rate for calculating the HSF contribution of eligible specified employers was once again reduced.

More specifically, it was announced that the applicable rate for calculating the HSF of eligible specified employers whose total payroll is \$1 million or less would gradually decrease from 1.50% to 1.25% over a five-year period. Eligible specified employers whose total payroll for a year exceeds \$1 million will also see a gradual reduction in their contribution rate.

Thus, for 2018, the applicable rates for the purpose of calculating the HSF contribution payable by an eligible specified employer whose total payroll for the year is \$1 million or less are:

- 1.50%, in respect of wages paid or deemed paid not later than March 27, 2018;
- 1.45%, in respect of wages paid or deemed paid after March 27, 2018.

The rates rise linearly to 4.26%, where the eligible specified employer's total payroll is between \$1 million and \$5 million.

It was also announced that the tax burden on SMBs in other sectors of activity—the service and construction sectors—would be further eased and that the HSF contribution rate for specified employers in these sectors whose total payroll is \$1 million or less would gradually decrease from 2.30% to 1.65% over a five-year period. Specified employers whose total payroll for a year exceeds \$1 million without exceeding the total payroll threshold applicable for the year will also see a gradual reduction in their contribution rate.

Thus, for 2018, the applicable rates for the purpose of calculating the HSF contribution payable by a specified employer, other than an eligible specified employer, whose total payroll for the year is \$1 million or less are:

- 2.30%, in respect of wages paid or deemed paid not later than March 27, 2018;

---

<sup>15</sup> Ministère des Finances du Québec, *Information Bulletin 2014-11*, December 2, 2014, pp. 3-6.

<sup>16</sup> See note 10.

<sup>17</sup> Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, pp. A.49-A.63.

— 1.95%, in respect of wages paid or deemed paid after March 27, 2018.

The rates rise linearly to 4.26%, where the specified employer's total payroll is between \$1 million and \$5 million.

Lastly, a gradual increase in the total payroll threshold applicable for the year for the purpose of determining whether the employer is eligible for the rate reduction available to SMBs was also announced. More specifically, the \$5-million threshold will be gradually raised over four years as of 2019, reaching \$7 million in 2022. This threshold will be automatically adjusted each year as of 2023.<sup>18</sup>

To provide further tax relief to SMBs and foster their competitiveness, changes will be made to the calculation of the employer contribution to the HSF.

First, the increase in the \$5-million threshold related to a specified employer's total payroll applicable for the year for the purpose of determining whether the employer is eligible for the rate reduction available to SMBs will be moved up so that it reaches \$5.5 million as of 2018<sup>19</sup> and \$6 million for 2019. As announced in Budget Speech 2018-2019, it will be \$6 million for 2020, 6.5 million for 2021 and \$7 million for 2022. As of 2023, it will be adjusted automatically each year. The *Act respecting the Régie de l'assurance maladie du Québec* will be amended accordingly.

Second, a new plan to reduce the HSF contribution rates for SMBs will be implemented as of the date of publication of this information bulletin.

The HSF contribution rate of an eligible specified employer will be reduced earlier than expected. The rate of 1.25% applicable where the total payroll of such an employer for the year is \$1 million or less, which was not to take effect until 2022, will apply in respect of wages paid or deemed paid after the date of publication of this information bulletin. The HSF contribution rate of eligible specified employers whose total payroll for a year exceeds \$1 million will be adjusted accordingly.

The HSF contribution rate of a specified employer in sectors other than the primary and manufacturing sectors will also be reduced earlier than expected. The rate of 1.75% applicable where the total payroll of such an employer for the year is \$1 million or less, which was not to take effect until 2020, will apply in respect of wages paid or deemed paid after the date of publication of this information bulletin. The rates of 1.70% and 1.65% were not to take effect until 2021 and 2022, respectively. Those rates will apply as of 2019 and 2020. The HSF contribution rate of a specified employer whose total payroll for a year exceeds \$1 million, but does not exceed the total payroll threshold applicable for the year, will be adjusted accordingly.

---

<sup>18</sup> Even more specifically, the total payroll threshold applicable for 2018 is \$5 million and it was announced that it will be \$5.5 million for 2019, \$6 million for 2020, \$6.5 million for 2021 and \$7 million for 2022. As of 2023, it will be automatically adjusted each year.

<sup>19</sup> The \$5.5 million threshold for 2018 was established to take into account the increase, from \$5 million to \$6 million, of the total payroll threshold in 2018.

## □ SMBs in the primary and manufacturing sectors

The following table shows the impact of the reduction of the HSF contribution rate for SMBs in the primary and manufacturing sectors and the increase of the total payroll threshold applicable for the year.

TABLE 3

**Illustration of the impact of the gradual reduction of the HSF contribution rate for SMBs in the primary and manufacturing sectors and the increase of the total payroll threshold applicable for the year**  
(per cent)

	Total payroll								
	\$1M or less	\$2M	\$3M	\$4M	\$5M	\$5.5M	\$6M	\$6.5M	\$7M
<b>Rate for 2018</b>									
Until March 27	1.50	2.11	2.73	3.34	3.95	4.26	4.26	4.26	4.26
From March 28 until the day of publication of this information bulletin	1.45	2.07	2.70	3.32	3.95	4.26	4.26	4.26	4.26
After the day of publication of this information bulletin	1.25	1.92	2.59	3.26	3.93	4.26	4.26	4.26	4.26
<b>Rates for 2019</b>	1.25	1.85	2.45	3.06	3.66	3.96	4.26	4.26	4.26
<b>Rates for 2020</b>	1.25	1.85	2.45	3.06	3.66	3.96	4.26	4.26	4.26
<b>Rates for 2021</b>	1.25	1.80	2.34	2.89	3.44	3.71	3.99	4.26	4.26
<b>Rates for 2022</b>	1.25	1.75	2.25	2.76	3.26	3.51	3.76	4.01	4.26

Note: An employer in the primary and manufacturing sectors whose total payroll for a year reaches or exceeds the total payroll threshold applicable for the year is not an eligible specified employer. The employer is therefore not eligible for a reduction of the HSF contribution rate.

More specifically, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to stipulate that, for the purpose of calculating the HSF contribution payable for a particular year subsequent to 2017 by an eligible specified employer, the rate applicable to wages subject to the contribution for the year will correspond to:

- for 2018, one of the following rates:
  - where the employer's total payroll for the year is \$1 million or less:
    - 1.50%, in respect of wages paid or deemed paid not later than March 27, 2018,
    - 1.45 %, in respect of wages paid or deemed paid after March 27, 2018 but not later than the date of publication of this information bulletin,
    - 1.25%, in respect of wages paid or deemed paid after the date of publication of this information bulletin;

- where the employer’s total payroll for the year is over \$1 million but under \$5.5 million:
  - in respect of wages paid or deemed paid not later than March 27, 2018, the percentage rate determined by the following formula:

$$0.8867\% + \frac{(0.6133\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- in respect of wages paid or deemed paid after March 27, 2018 but not later than the date of publication of this information bulletin, the percentage rate determined by the following formula:

$$0.8256\% + \frac{(0.6244\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- in respect of wages paid or deemed paid after the date of publication of this information bulletin, the percentage rate determined by the following formula:

$$0.5811\% + \frac{(0.6689\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

— for a year subsequent to 2018:

- 1.25%, where the employer’s total payroll for the year is \$1 million or less,
- the percentage rate determined by the following formula, where the employer’s total payroll for the year is over \$1 million but below the total payroll threshold applicable for the year:

$$A + \frac{(B \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

In the above formula:

— A is the percentage obtained by the following formula:

$$1.25\% - B;$$

— B is the percentage obtained by the following formula:

$$3.01\% \div \left( \frac{\text{total payroll threshold applicable for the year}}{\$1\,000\,000} - 1 \right)$$

Where the rate, expressed as a percentage, determined by one of the above formulas has more than two decimal places, only the first two are to be used, and the second decimal place must be increased by one unit if the third is greater than 4.

However, where the percentage rate determined by the formulas for determining the value of A and B of the formula for determining the rate applicable for the calculation of the HSF contribution payable for a year after 2018 has more than four decimal places, only the first four are to be used, and the fourth must be increased by one unit if the fifth is greater than 4.

## □ SMBs in the service and construction sectors

The following table shows the impact of the gradual reduction of the HSF contribution rate for SMBs in the service and construction sectors and the increase of the total payroll threshold applicable for the year.

TABLE 4

**Illustration of the impact of the gradual reduction of the HSF contribution rate for SMBs in the service and construction sectors and the increase of the total payroll threshold applicable for the year**  
(per cent)

	Total payroll								
	\$1M or less	\$2M	\$3M	\$4M	\$5M	\$5.5M	\$6M	\$6.5M	\$7M
<b>Rate for 2018</b>									
Until March 27	2.30	2.74	3.17	3.61	4.04	4.26	4.26	4.26	4.26
From March 28 until the day of publication of this information bulletin	1.95	2.46	2.98	3.49	4.00	4.26	4.26	4.26	4.26
After the day of publication of this information bulletin	1.75	2.31	2.87	3.42	3.98	4.26	4.26	4.26	4.26
<b>Rates for 2019</b>	1.70	2.21	2.72	3.24	3.75	4.00	4.26	4.26	4.26
<b>Rates for 2020</b>	1.65	2.17	2.69	3.22	3.74	4.00	4.26	4.26	4.26
<b>Rates for 2021</b>	1.65	2.12	2.60	3.07	3.55	3.79	4.02	4.26	4.26
<b>Rates for 2022</b>	1.65	2.09	2.52	2.96	3.39	3.61	3.83	4.04	4.26

More specifically, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to stipulate that, for the purpose of calculating the HSF contribution payable for a particular year subsequent to 2017 by a specified employer other than an eligible specified employer, the rate applicable to wages subject to the contribution for the year will correspond to:

- for 2018, one of the following rates:
  - where the employer's total payroll for the year is \$1 million or less:
    - 2.30%, in respect of wages paid or deemed paid not later than March 27, 2018,
    - 1.95%, in respect of wages paid or deemed paid after March 27, 2018 but not later than the date of publication of this information bulletin,
    - 1.75%, in respect of wages paid or deemed paid after the date of publication of this information bulletin;

- where the employer’s total payroll for the year is over \$1 million but under \$5.5 million:
  - in respect of wages paid or deemed paid not later than March 27, 2018, the percentage rate determined by the following formula:

$$1.8644\% + \frac{(0.4356\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- in respect of wages paid or deemed paid after March 27, 2018 but not later than the date of publication of this information bulletin, the percentage rate determined by the following formula:

$$1.4367\% + \frac{(0.5133\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- in respect of wages paid or deemed paid after the date of publication of this information bulletin, the percentage rate determined by the following formula:

$$1.1922\% + \frac{(0.5578\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26% in all other cases;

— for 2019, one of the following rates:

- 1.70%, where the employer’s total payroll for the year is \$1 million or less,
- the percentage rate determined by the following formula, where the employer’s total payroll for the year is over \$1 million but under \$6 million:

$$1.1880\% + \frac{(0.5120\% \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26% in all other cases;

— for a year subsequent to 2019:

- 1.65%, where the employer’s total payroll for the year is \$1 million or less,
- the percentage rate determined by the following formula, where the employer’s total payroll for the year is over \$1 million but below the total payroll threshold applicable for the year:

$$A + \frac{(B \times \text{employer's total payroll for the year})}{\$1\,000\,000}$$

- 4.26% in all other cases.

In the above formula:

— A is the percentage obtained by the following formula:

$$1.65\% - B;$$

— B is the percentage obtained by the following formula:

$$2.61\% \div \left( \frac{\text{total payroll threshold applicable for the year}}{\$1\,000\,000} - 1 \right)$$

Where the rate, expressed as a percentage, determined by one of the above formulas has more than two decimal places, only the first two are to be used and the second decimal place must be increased by one unit if the third is greater than 4.

However, where the percentage rate determined by the formulas for determining the value of A and B of the formula for determining the rate applicable for the calculation of the HSF contribution payable for a year after 2019 has more than four decimals, only the first four are to be used and the fourth decimal must be increased by one unit if the fifth is greater than 4.

### □ Clarifications regarding the reduction of the HSF contribution for innovative SMBs

To bolster the capacity to innovate of Québec SMBs while fostering the creation of specialized jobs, a temporary reduction of the contribution to the HSF was implemented further to the budget speech of June 4, 2014, for full-time jobs created in the natural and applied sciences sector.<sup>20</sup>

Briefly, this reduction, applicable until 2020, is granted regarding the increase in payroll attributable to the hiring of specialized employees by a specified employer whose total payroll for a year is less than the total payroll threshold applicable for the year.

The increase in a specified employer's payroll for a particular year is determined on the basis of the employer's base year.<sup>21</sup> Integrity rules provide that this increase may not exceed the increase in the total payroll of employers associated with each other at the end of the particular year, with the exception of employers whose base year is not ended before the particular year. This increase must then be allocated among the associated employers, in accordance with an agreement entered into by them.

Where a specified employer's total payroll does not exceed \$1 million, the reduction granted will completely eliminate the contribution to the HSF payable for new specialized employees. Specified employers whose payroll is between \$1 million and the total payroll threshold applicable for the year will receive a partial reduction in the contribution payable for such employees.

<sup>20</sup> Ministère des Finances du Québec, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, p. 8-14.

<sup>21</sup> The base year of a specified employer is the first year that ends after December 31, 2012 throughout which the employer carried on a business.

Therefore, for 2018, where the employer's total payroll for the year exceeds \$1 million, the reduction rate to be used corresponds to the rate determined by the following formula:

$$\text{Employer's HSF contribution rate for the year} - \left( \text{Employer's HSF contribution rate for the year} \times \frac{\text{Employer's total payroll for the year} - \$1\text{M}}{\$4\text{M}} \right)$$

At the time of Budget Speech 2018-2019, clarifications were provided to determine the amount of the reduction to which a specified employer may be entitled for 2018 to 2020.

Further clarifications are required to take into account the decrease, as of the day following the day of publication of this information bulletin, of the HSF contribution rate of specified employers whose total payroll is below the total payroll threshold applicable for a year and that of eligible specified employers. Further clarifications are also required to take into account the changes to the total payroll threshold applicable for 2018 and 2019.

## ▪ Clarifications regarding the reduction of the HSF for 2018

The *Act respecting the Régie de l'assurance maladie du Québec* will be amended so that the reduction of the HSF contribution for a specified employer for 2018 corresponds to the total of the reduction of the HSF contribution that would have been calculated for the year in respect of wages paid or deemed paid by the employer not later than March 27, 2018 (hereinafter, the "first period"), the reduction in the contribution rate to the HSF that would have been calculated for the year in respect of wages paid or deemed paid by the employer after March 27, 2018 but not later than the date of publication of this information bulletin (hereinafter, the "second period"), and the reduction in the contribution rate to the HSF that would have been calculated for the year in respect of wages paid or deemed paid by the employer after the date of publication of this information bulletin (hereinafter, the "third period"), taking into account the following assumptions:

- except to determine the increase in the payroll of employers associated with each other at the end of 2018, the only wages paid or deemed paid to employees by the specified employer in 2018 were those paid or deemed paid to employees by the employer in that year during the first, second or third period, as the case may be;
- the specified employer's HSF contribution rate for 2018 was that applicable to wages paid or deemed paid by the employer in that year during the first, second or third period, as the case may be;
- except to determine the increase in the payroll of employers associated with each other at the end of 2018, the aggregate of wages paid or deemed paid to employees by the specified employer in the employer's base year was equal to the product of the multiplication of the aggregate by the ratio between the number of days in 2018 included in the first, second or third period, as the case may be, and 365;
- the amount that is allocated to the specified employer for 2018 on account of the increase in the payroll of employers associated with each other at the end of 2018 was equal to the product of the multiplication of the amount that is effectively allocated to the employer on that account by the ratio between the number of days in 2018 included in the first, second or third period, as the case may be, and 365.

Furthermore, to take into account the new increase in the total payroll threshold applicable for 2018, the denominator of the fraction in the formula for determining a specified employer's reduction rate where the employer's total payroll exceeds \$1 million, will be replaced by \$4.5 million.

- **Clarifications regarding the reduction of the HSF contribution for 2019 and 2020**

Amendments will be made to the *Act respecting the Régie de l'assurance maladie du Québec* so that, for the purpose of calculating a specified employer's reduction rate for a year subsequent to 2018, reference is made to the new rate that will apply to wages paid or deemed paid by the employer for the year for the purpose of calculating the employer's contribution payable to the HSF.

As such, to take into account the new increase in the total payroll threshold applicable for 2019, the denominator of the fraction in the formula for determining a specified employer's reduction rate where the employer's total payroll exceeds \$1 million, will be replaced by \$5 million for 2019, and remain at \$5 million for 2020.

- **Periodic payments to the HSF**

The periodic payments made by a specified employer for the part of 2018 after the publication of this information bulletin can, if applicable, take into account the increase in the total payroll threshold applicable for 2018.