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INFORMATION BULLETIN

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FISCAL MEASURES ANNOUNCED IN THE *UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION* AND OTHER MEASURES

This information bulletin makes public the fiscal measures announced by the Minister of Finance in the fall 2019 *Update on Québec's Economic and Financial Situation*.

It also announces the amendments that will be made to the tax legislation to adjust the amount of each of the exemptions granted for the purpose of establishing the threshold at which a premium becomes payable under the Public Prescription Drug Insurance Plan and to amend the measure relating to the deferral of the payment of tax on a deemed disposition of interests in a qualified public corporation.

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.

FISCAL MEASURES ANNOUNCED IN THE *UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION* AND OTHER MEASURES

1. Measures announced in the *Update on Québec's Economic and Financial Situation*

1.1 Enhancement of the family allowance

In the fall of 2018, as part of the *Update on Québec's Economic and Financial Situation*,[1] the government announced the introduction of a family allowance to enhance the assistance provided to families with two or more children. On that occasion, the government also reiterated its commitment to grant families, in the long run, the same maximum amount for every child in order to further support them.[2]

As a result, since January 1, 2019, the refundable tax credit granting an allowance to families has replaced the refundable tax credit for child assistance (RTCCA), which provided families with financial assistance to help them provide for their children under 18 years of age since 2005. Since January 1, 2019, the component of this tax credit relating to child assistance payments is named the "family allowance".[3]

❑ Description of the refundable tax credit granting an allowance to families

This tax credit, which is paid monthly or quarterly, as the case may be, is comprised of the family allowance, the supplement for handicapped children, the supplement for handicapped children requiring exceptional care and the supplement for the purchase of school supplies introduced in 2017.[4]

The family allowance, which includes a universal base, is determined according to family income, so that an additional assistance is provided to low- and middle-income families. As for the three supplements, they are provided to eligible families regardless of their family income.

1 Ministère des Finances du Québec, *Update on Québec's Economic and Financial Situation*, Fall 2018, p. A.7-A.9.

2 *Id.*, p. B.9.

3 Ministère des Finances du Québec, *Information Bulletin 2018-9*, December 3, 2018, p. 3-5.

4 Ministère des Finances du Québec, *Information Bulletin 2017-11*, November 21, 2017, p. 9-11.

Determination of the family allowance

The family allowance is determined on a monthly basis. Briefly, the family allowance to which an eligible individual[5] is entitled for a given month is calculated in two steps:

— the first step consists in determining the amount that is equal to the total of the maximum amounts that apply, for the year that includes the given month, to the individual based on the individual's number of eligible dependent children[6] at the beginning of the given month and the individual's conjugal status at the beginning of that month (with or without spouse);

— the second step consists in reducing, if applicable, the given amount based on the individual's family income, that is, generally, the individual's income for the base year in respect of the particular month[7] and the income for that base year of the person who is the individual's spouse at the beginning of the given month.

For 2019, the reduction based on family income is calculated at a rate of 4% for every dollar of family income that exceeds a threshold of $49 044, if the individual has a spouse, or $35 680 in other cases.

However, the amount so reduced may never be less than the total of the minimum amounts that apply, for the year that includes the given month, in respect of the individual based on the individual's number of eligible dependent children at the beginning of the given month and the individual's conjugal status at the beginning of that month (with or without a spouse). Thereafter, the amount so determined is divided by twelve in order to be adjusted on a monthly basis.

Finally, when a child is in shared custody, that is, when the child lives at least 40% of the time each month with each parent on an alternating basis, the family allowance is paid to both parents, but the amount each parent receives is reduced by half.[8]

Payment of the refundable tax credit granting an allowance to families

Retraite Québec is responsible for paying the refundable tax credit granting an allowance to families. Retraite Québec makes payments under this tax credit on a quarterly basis, with the exception of the component attributable to the supplement for the purchase of school supplies, which is paid in a single separate payment.[9]

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5 Briefly, an eligible individual for a given month must reside in Québec with the child at the beginning of the month, be the father or mother of the child, 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.

6 Briefly, an eligible dependent child, at the beginning of a given month, is a person under the age of 18 at that time who is not a person in respect of whom an individual has deducted, in calculating his or her tax otherwise payable for the base year relative to a given month, an amount under the unused portion of certain non-refundable tax credits to the spouse.

7 For the months of January to June of a given year, the base year is the second calendar year preceding the given year. For the months of July to December of a given year, the base year is the calendar year preceding the given year.

8 Additional calculation rules apply when one or more children in a family are in shared custody.

9 The supplement for the purchase of school supplies is paid once a year, for the month of July, in respect of each school-aged child. A school-aged child is one who is at least 4 years old and at most 16 years old on September 30 of the year or, if the child is disabled, at most 17 years of age.

Payments of the refundable tax credit granting an allowance to families are made in January, April, July and October, and include the amounts determined for the months in the quarter. However, if an individual so requests, Retraite Québec makes payments under the refundable tax credit on a monthly basis, in which case each instalment includes the amount determined for that month.

❑ Enhancement of the minimum and maximum amount of the family allowance as of 2020

To make the family allowance fairer and take into account the additional costs associated with the presence of children, the government is announcing that the tax legislation will be amended to grant families the same minimum and maximum amount of family allowance for all children under 18 years of age, regardless of their rank in the family.

Starting in 2020, the minimum and maximum amount of the family allowance for a child under 18 years of age will be the same for all children; the minimum amount will be $1 000 and the maximum amount, $2 515.

In other words, starting in 2020, the amount of the family allowance to which an eligible individual is entitled will be determined according to the number of children in the family. As a result, the child's rank in the family will no longer have an impact on the determination of the amount granted under the family allowance.

The following table illustrates the parameters of the enhancement of the family allowance in 2020.

TABLE

PARAMETERS OF THE ENHANCEMENT IN THE FAMILY ALLOWANCE – 2020
(dollars)

	Before the enhancement	After the enhancement	Additional amount
Maximum amounts			
1st child	2 515	2 515	—
2nd and 3rd children	1 765	2 515	750
4th child and subsequent children	1 884	2 515	631
Minimum amounts			
1st child	706	1 000	294
2nd child and subsequent children	652	1 000	348
Reduction threshold			
Couple	49 842	49 842	—
Single-parent family	36 256	36 256	—

1.2 Introduction of a measure in response to the Québec Ombudsperson's *2018-2019 Annual Report*

In her *2018-2019 Annual Report*, the Québec Ombudsperson pointed out that the refundable solidarity tax credit (hereinafter, the "solidarity tax credit") is a right whose purpose is to assist society's most destitute citizens. The Québec Ombudsperson insisted on the need for a measure that would enable all last-resort financial assistance recipients to benefit from the Québec sales tax (QST) component of the solidarity tax credit.[10]

Since the announcement of the Ministère des Finances on November 21, 2017, the requirement to apply for the basic amount and the amount for a spouse under the QST component of the solidarity tax credit using the prescribed Schedule (Schedule D) has been removed from the tax legislation.[11]

As a result, when the information necessary to determine an individual's eligibility for the solidarity tax credit has been provided to Revenu Québec by the individual through his or her income tax return, Revenu Québec may, since the announcement made on November 21, 2017 and which is applicable as of the 2018 taxation year, pay the basic amount and the amount for a spouse under the QST component, without the individual having to claim it through Schedule D.

Currently, as specified in *Information Bulletin 2017-11*, the individual and, as the case may be, the individual's spouse, are still required to file their respective income tax returns for a taxation year to obtain the solidarity tax credit for that year, but the individual and his or her spouse no longer have to file Schedule D to benefit from the basic amount and the amount for a spouse under the QST component.

However, the Québec Ombudsperson pointed out that a significant number of last-resort financial assistance recipients are still unable to produce an income tax return. As a result, she recommended that the Ministère des Finances, the Ministère du Travail, de l'Emploi et de la Solidarité sociale and the Agence du revenu du Québec implement a solution so that all last-resort financial assistance recipients have access to the QST component of the solidarity tax credit.

❑ Description of the solidarity tax credit

The Québec tax system includes several refundable tax credits for low- and middle-income households, such as the solidarity tax credit.

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 who was resident in Québec at the end of the base year relating to the payment period, provided that, 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 aged 18 years or less with whom the individual resided.

10 QUÉBEC OMBUDSMAN, *2018-2019 Annual Report*, p. 44.

11 MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2017-11*, p. 15-17.

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.

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 costs associated with occupying an eligible dwelling to be taken into account;

— the northern village component, which is intended to recognize the higher costs that must be borne by inhabitants of Québec's 14 northern villages.

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 who, at that time, was resident in Québec and ordinarily lived with the individual;

— 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.

❑ Payment of the QST component of the solidarity tax credit

The Québec tax system is based on the principles of self-declaration and self-assessment.

According to these principles, Québec taxpayers are required to report their income for each taxation year, to calculate the taxes and contributions payable for each year and to remit them to Revenu Québec within the prescribed time limits.

Consequently, Québec taxpayers are required to provide all necessary information concerning their income as well as information concerning the deductions and credits they claim so that Revenu Québec, which is responsible for administering taxation, can ensure that all taxpayers pay the amounts they owe under the tax legislation for each taxation year and, with respect to socio-fiscal programs, that the taxpayers covered by these programs receive all the amounts to which they are entitled.

The fundamental principles underlying Québec's tax legislation also ensure that an eligible individual and, as the case may be, the individual's spouse, are still required, as specified in *Information Bulletin 2017-11*, to file their income tax returns for a taxation year to obtain the solidarity tax credit for that year, although, since November 21, 2017, the individual and his or her spouse no longer have to file Schedule D to benefit from the basic amount and the amount for a spouse under the QST component.

However, despite the flexibility granted on November 21, 2017 through *Information Bulletin 2017-11*, the government must recognize, as the Québec Ombudsperson noted, that some social assistance recipients may have difficulty filing their income tax return in certain circumstances.

Considering that the amounts granted under the QST component of the solidarity tax credit are intended to assist Québec society's most destitute citizens, the government, with a view to following through on the recommendation of the Québec Ombudsperson, proposes to amend the tax legislation to enable Revenu Québec to pay the amounts under the QST component of the solidarity tax credit to social assistance recipients, including recipients of the "Objectif emploi" program, without them having to file an income tax return.

Therefore, the tax legislation will be amended so that, as of the payment period beginning July 1, 2019, an eligible individual will be deemed to have claimed the amounts under the QST component of the solidarity tax credit for that payment period when:

- the individual was a recipient of a financial assistance program provided for in chapter I, II or V of Title II of the *Individual and Family Assistance Act*[12] on the last month (December) of the base year preceding a payment period; and
- as at September 1 of the year following the base year, the individual has not filed an income tax return for the base year with the Minister of Revenue.[13]

Provided that an eligible individual meets these conditions, the amounts granted under the QST component may be paid to the individual by Revenu Québec for the payment period following the base year without the individual having to file an income tax return for that base year, but only if Revenu Québec has at its disposal the information necessary to determine the amounts to which the eligible individual is entitled for that payment period.

For greater clarity, an eligible individual will continue to be required, for the purposes of the solidarity tax credit, to file an income tax return for a taxation year, which corresponds to the base year for the solidarity tax credit, in order to receive, for the payment period following that base year, the other components of the solidarity tax credit as well as the other amounts granted under the QST component that could not have been paid to the individual for that year. The individual must apply for these amounts by filing the prescribed form (Schedule D) containing the prescribed information, so that Revenu Québec has at its disposal the information necessary to determine all the amounts to which the eligible individual is entitled under the solidarity tax credit.

❑ Application date

These amendments will apply as of the payment period beginning after June 30, 2019.

12 CQLR, chapter A-13.1.1.

13 This claim will be deemed to have been made, for a particular payment period, on September 1 of the year following the base year in respect of that period. However, the amounts determined for the payment period beginning July 1, 2019 will not bear interest.

2. OTHER MEASURES

2.1 Adjustment of the exemptions allowed for the purpose of calculating the premium payable under the Public Prescription Drug Insurance Plan

The basic prescription drug insurance plan established by the Québec government guarantees all Quebecers fair access to the medications required by their state of health. Coverage under the plan is provided by the Régie de l'assurance maladie du Québec, as the administrator of the Public Prescription Drug Insurance Plan, or by insurers transacting group insurance or by administrators of private sector employee benefit plans.

As a general rule, the Régie de l'assurance maladie du Québec provides coverage for individuals who are not required to become members of a group insurance contract, an individual insurance contract concluded on the basis of one or more of the distinctive characteristics of group insurance[14] or an employee benefit plan applicable to a determined group of persons, as well as coverage for those persons whom no one is required to cover.

Adults registered with the Régie de l'assurance maladie du Québec are required to contribute to the payment of the cost of pharmaceutical services and drugs supplied to them each time a prescription is filled or renewed. The contribution, which is subject to a maximum amount, consists of a deductible amount[15] and a coinsurance payment.[16]

However, adults whose income consists essentially of social assistance benefits based on an examination of resources, needs or income are exempt from paying any contribution. This exemption, which targets the most disadvantaged persons, is geared more specifically to persons eligible for a last-resort financial assistance program stipulated in the *Individual and Family Assistance Act*,[17] as well as to persons aged 65 or over who receive, under the *Old Age Security Act*,[18] 94% or more of the maximum monthly amount of the Guaranteed Income Supplement determined, which does not take into account the additional amount granted since July 2011.

Adults who are not covered throughout a year by a group insurance contract, an individual insurance contract concluded on the basis of one or more of the distinctive characteristics of group insurance or an employee benefit plan that is applicable to a determined group of persons must generally pay a premium for that year to finance the Public Prescription Drug Insurance Plan. For calendar year 2019, the maximum premium payable is $626 per adult.

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14 The individual insurance contract must be covered by section 42.2 of the *Act respecting prescription drug insurance* (CQLR, chapter A-29.01).

15 The deductible is the portion of the cost of pharmaceutical services and prescription drugs borne entirely by the person covered by the plan during the reference period. Since July 1, 2019, the amount of the deductible is $261 per year, divided into equal monthly parts.

16 The coinsurance is the proportion of the cost of pharmaceutical services and prescription drugs borne by the person covered by the plan. Since July 1, 2019, the coinsurance proportion is 37%.

17 CQLR, chapter A-13.1.1.

18 R.S.C., 1985, c. O-9.

However, most adults who are exempt from paying any contribution for the cost of pharmaceutical services and drugs provided to them under the public plan are also exempt from paying the premium.

Moreover, to reflect a household's ability to pay, the premium payable by an adult for a year is determined on the basis of family income, from which an exemption amount based on the household's composition is subtracted.[19]

Since the introduction of the Public Prescription Drug Insurance Plan, the amount of these exemptions has been adjusted annually to protect household purchasing power. In addition, to ensure the progressivity of the premium, two contribution rates are applicable. The first rate[20] applies to the first $5 000 of income covered, and the second rate,[21] to the portion exceeding $5 000.

Accordingly, to maintain the principles underlying the determination of the amount of the premium payable to the Public Prescription Drug Insurance Plan, the government will adjust, for 2019, the amount of each of the exemptions currently allowed to establish the threshold at which a premium becomes payable.

The following table shows the amount of each of the allowable exemptions for 2019, according to household composition.

TABLE

Amount of the exemptions allowed for the purpose of calculating the premium payable under the Public Prescription Drug Insurance Plan for 2019
(dollars)

Household composition	Amount of the exemption
1 adult, no children	16 460
1 adult, 1 child	26 670
1 adult, 2 or more children	30 140
2 adults, no children	26 670
2 adults, 1 child	30 140
2 adults, 2 or more children	33 345

19 The amount that must be applied to reduce family income makes it possible to exempt from payment of the premium adults whose family income is below a certain threshold.

20 For 2019, the first contribution rate is 6.48%, in the case of a single person, and 3.26%, in the case of a person living as a couple.

21 For 2019, the second contribution rate is 9.74%, in the case of a single person, and 4.89%, in the case of a person living as a couple.

2.2 Amendments to the measure relating to the deferral of the payment of tax on a deemed disposition of interests in a qualified public corporation

The tax legislation provides for the deemed disposition of property at fair market value in certain circumstances. This is the case, for example, on a person's death or on the 21st anniversary of a trust. This deemed disposition may trigger a liquidity shortfall, since, unlike an actual sale, there is no real cash inflow to pay the tax attributable to the deemed disposition.

In the event that the property deemed to have been disposed of includes shares of the capital stock of a public corporation whose head office is in Québec and that part of these shares are sold to pay taxes, the influence of the Québec executive or his or her successors on the corporation will be reduced, which may jeopardize the corporation's presence in Québec.

Information Bulletin 2017-3[22] provided a detailed account of the fiscal measures announced at the time of the tabling of the government action plan to foster an executive-driven economy.[23]

At that time and in order to foster the maintenance of substantial interests in public corporations whose head office is in Québec, the government announced a deferral of the payment of tax on certain deemed dispositions of interests in a qualified public corporation.

Briefly, subject to the provision of a security satisfactory to the Minister of Revenue, a deceased individual's legal representative or a trust may elect to defer, for a maximum period of 20 years, the payment of Québec income tax attributable to the deemed disposition of eligible shares.

An eligible share means a share forming part of a large block of shares or of a portion of a large block of shares of the capital stock of a qualified public corporation, or a share of the capital stock of a private corporation more than 95% of the fair market value of the assets of which is attributable to a large block of shares or a portion of a large block of shares of the capital stock of a qualified public corporation.

A large block of shares of the capital stock of a corporation means a block of shares of the capital stock of the corporation that gives its owner more than 33 ⅓% of the votes that could be cast under any circumstances at the annual meeting of shareholders of the corporation.

When the large block of shares of the capital stock of a qualified public corporation is owned, at any time, by a related group, a portion of a large block of shares means one or more shares of the capital stock of the corporation owned by a member of the related group at that time.

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22 MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2017-3*, February 21, 2017.

23 GOUVERNEMENT DU QUÉBEC, *For an open and prosperous economy: A plan to strengthen the Québec economy as an executive-driven economy*, February 2017.

A qualified public corporation at a particular time means a corporation that is a public corporation and whose head office is in Québec at that time. In addition, the corporation's base total payroll in Québec,[24] for the taxation year that includes the particular time, must represent at least 75% of its base total payroll in Québec for the taxation year in which the deemed disposition occurred.

The requirement that more than 95% of the fair market value of the assets of a private corporation (hereinafter referred to as the "95% test") be attributable to a large block of shares or a portion of a large block of shares of the capital stock of a qualified public corporation so that the shares of the capital stock of the private corporation qualify as an eligible share, for the purposes of the 20-year tax payment deferral, ensures, among other things, that all or substantially all of the tax the payment of which is deferred is attributable to the shares of the capital stock of the qualified public corporation.

However, it appears that the 95% test is difficult to meet for several corporations. It will therefore be amended. As a result, amendments will also be made to the tax legislation so that only the portion of the tax that is attributable to the interest in the qualified public corporation can be subject to a 20-year payment deferral.

❑ Change in the definition of "eligible share"

The tax legislation will be amended so that the expression "eligible share", for the purposes of the 20-year tax payment deferral measure, means:

— a share forming part of a large block of shares or of a portion of a large block of shares of the capital stock of a qualified public corporation; or

— a share of the capital stock of a private corporation more than 50% of the fair market value of the assets of which is attributable to a large block of shares or a portion of a large block of shares of the capital stock of a qualified public corporation.

❑ Determination of the portion of the tax the payment of which may be deferred

Where the eligible shares that will be deemed to have been disposed of are shares of the capital stock of a private corporation, the portion of the tax the payment of which may be deferred in respect of all shares, each of which is an eligible share of a particular class of the capital stock of the private corporation, will be equal to the product obtained by multiplying the amount of tax resulting from the deemed disposition of such eligible shares of the particular class by the proportion of the fair market value of the assets of the private corporation attributable to a large block of shares or a portion of a large block of shares of the capital stock of a qualified public corporation over the fair market value of all assets of the private corporation.

[24] Briefly, a corporation's base total payroll in Québec for a particular taxation year corresponds to its average annual payroll in Québec, calculated over a three-year period ending in the particular taxation year. It is calculated by taking into account the payroll of the corporations with which the corporation is associated, if applicable.

For example, if the proportion of the fair market value of the assets of the private corporation attributable to a large block of shares of the capital stock of a qualified public corporation over the fair market value of all assets of the private corporation is 62%, only 62% of the tax resulting from the deemed disposition of all shares, each of which is an eligible share of a particular class of the capital stock of the private corporation, may be subject to a deferral of payment for a maximum of 20 years.

This portion of the tax the payment of which may be deferred will be determined once, at the time of the deemed disposition. Therefore, the increase or decrease, over the 20-year deferral period, of the proportion of the fair market value of the assets of the private corporation attributable to a large block of shares or to a portion of a large block of shares of the capital stock of a qualified public corporation over the fair market value of all assets of the private corporation, will not affect the portion of tax the payment of which may be deferred and which relates to eligible shares of a particular class of the capital stock of the private corporation, provided that such shares remain eligible shares.

Moreover, where the proportion of the fair market value of the assets of a private corporation attributable to a large block of shares or a portion of a large block of shares of the capital stock of a qualified public corporation over the fair market value of all assets of the private corporation is more than 95%, this proportion will be deemed to be equal to 100% and a full deferral of the tax payment may be granted.

Consequential amendments will be made to calculate the portion of the tax the payment of which may be deferred after the twentieth anniversary of the deemed disposition of an eligible share where the fair market value of the eligible share is less than its fair market value at the time of the deemed disposition.

❑ Other terms and conditions

For greater clarity, the other terms and conditions of the deferral of the payment of tax on a deemed disposition of interests in a qualified public corporation remain unchanged.

❑ Application date

The amendments will apply to a deemed disposition of an eligible share that occurs on or after the date of publication of this information bulletin.