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Reflection on taxes

March 26, 2015

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Quebec's 2015-2016 budget

March is definitely an auspicious month for Quebec taxes! Following the filing of the final report of the Commission d'examen sur la fiscalité québécoise, it was the Minister of Finance and Economy of Quebec, Mr. Carlos Léitão's turn, to table his budget. Although all of the proposed measures have not been adopted, the flavor of the budget presented is quite inspired by the work of the Commission...

Here is a summary of the elements that will have the most impact on our clients and their businesses:

❖ Rates reductions... To come

- The corporate tax rates will be lowered as follows:

Taxable income	Actual	2017	2018	2019	2020
\$500,000 or more	11.9%	11.8%	11.7%	11.6%	11.5%
\$500,000 or less for eligible small Businesses (see comments on SBD)	8.0%	8.0%	8.0%	8.0%	8.0%

- The Health Service Fund contribution rate payable by the employer's on their total payroll will be lowered as follows:

Total payroll	Actual	2017	2018	2019
\$1 million or less	2.70%	2.55%	2.40%	2.25%
\$2 million	3.09%	2.98%	2.87%	2.75%
\$3 million	3.48%	3.41%	3.33%	3.26%
\$4 million	3.87%	3.83%	3.80%	3.76%
\$5 million or more	4.26%	4.26%	4.26%	4.26%

- The health contribution payable by any adult with an income greater than \$18,370 will be gradually reduced. The maximum current contribution of \$1,000 will be reduced to \$800 in 2017 and \$600 in 2018.

❖ Modification of the eligibility criteria to the SBD (small business deduction)

- Currently, companies operating a small business can benefit from the reduced tax rate of 8% on the first \$500,000 of active income. As of January 1, 2017, the deduction will be eligible to companies that employ more than three full-time employees throughout the year OR to companies operating in the primary and manufacturing sectors.

In other words, doctors, subcontracting dentists and other professionals who operate in a corporation with less than three employees will have to pay corporate income taxes at the highest tax rate. The proposed rates are as follows: 11.8% in 2017, 11.7% in 2018, 11.6% in 2019 and 11.5% in 2020 and the subsequent years. It remains to be seen if the Federal government will follow suit!

❖ Easing of the tax provisions applicable to the transfer of family businesses

- After decades of grievances, the tax community was heard by Quebec's government ... only partially, unfortunately!



Quebec's 2015-2016 budget (continued)

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- In fact, currently, the tax laws are not accommodative in the case of a business transfer among family members. We can even say that it is more profitable to sell to a stranger because of the current tax provisions.
- The budget proposes to allow, as of January 1, 2017, the transfer of family businesses with the same terms as a business transfer between people who are dealing at arm's length for the following corporate sectors:
 - ✓ Family farm corporations;
 - ✓ Family fishing corporations;
 - ✓ Corporation in the primary or manufacturing sectors.

Why can't the dentist, after working with his daughter for nearly 10 years, sell her his clinic with the same tax conditions as the other businesses in Quebec? It will be interesting to follow the developments in this regard and see what the Federal government's response will be...

❖ Other changes

- As of the 2016 taxation year, the eligibility age to claim the amount with respect to age credit will gradually be raised until it reaches a minimum age of 70 for any taxation year after 2019.
- Some changes to how the solidarity tax credit is managed will be made to reduce the administration costs.
- Establishment of a subsidy for seniors to offset higher municipal taxes as of 2016. The measure is applicable to families whose income does not exceed \$50,000, have owned their residence for more than 15 years and whose home is their primary residence.
- Amendment to the rates or terms of many tax credits for businesses.

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