

# Québec's Budget

March 25, 2021

Insights from our  
Tax & Estate Planning professionals



On March 25, 2021, Finance Minister Éric Girard presented the third budget of François Legault's government. The deficit is expected to be \$12.3 billion at the end of the 2021-2022 fiscal year.

The government plans to return to a balanced budget within seven years, in 2027-2028, rather than in five years as announced last year.

No cuts are planned until Québec returns to full employment at the end of 2022, after the provincial election. No tax increase is planned, and Éric Girard promises not to increase Quebecers' tax burden for the time being.

According to the Minister of Finance's assessment, the coronavirus will cost the Québec government approximately \$30 billion in lost revenue and overall pandemic-related expenses.

Economic recovery and strengthening the health care system are at the heart of Québec's plan. Not surprisingly, the budget calls for significant expenditures of \$134.9 billion:

- \$51.3 billion on health and social services
- \$28.2 billion on education and culture
- \$18.0 billion on the economy and the environment
- \$11.6 billion for individual and family assistance
- 12.1 billion for governance and justice
- \$13.7 billion in other expenditures

Québec is planning \$2.9 billion for the vaccination campaign, additional personnel, catching up on surgeries and providing home care. Québec also plans to spend \$4.5 billion on concrete to stimulate the economy. This amount will be added to the Québec Infrastructure Plan, which now totals a record \$135 billion.

The Minister of Finance forecasts that real GDP will grow by 4.2% in 2021.

Here are the main tax measures announced in this budget:

## **Businesses**

### **Tax reduction for SMEs**

- The general provincial corporate tax rate is 11.5%.
- A corporation that benefits from the small business deduction (SBD) receives a 7.5% tax rate reduction on the first \$500,000 of annual income so that its tax rate on that first \$500,000 of income falls from 11.5% to 4%.

- In order for a company to fully benefit from the SBD, it must meet a qualification criterion relating to the number of hours paid.
- The budget announces a rate reduction from 4% to 3.2%. In other words, the current SBD rate of 7.5% will be increased so that the maximum rate a corporation can receive is 8.3%.
- The change will apply to a corporation's taxation years that will end after the day of the budget discussion.
- It is estimated that approximately 70,000 SMEs will benefit from this measure.

#### Change to the non-eligible dividend tax credit rate

- As a result of the announced increase in the SBD and in order to better integrate the corporate and personal tax systems, the non-eligible dividend tax credit rate will be reduced.
- The non-eligible dividend tax credit rate, which is currently 4.01% of the grossed-up amount of the dividend, will be reduced to 3.42% of the grossed-up amount of the dividend received or deemed received after December 31, 2021.
- The maximum combined marginal rate for the non-eligible dividend will increase from 48.02% to 48.70%.

#### Addition of a choice with regard to the number of hours paid

- For a taxation year ending after June 30, 2020, but before July 1, 2021, a company may submit a request to the Minister of Revenue that the number of compensated hours used to determine whether it qualifies for the SBD or to determine its SBD rate be based instead on the number of paid hours in the previous year. rémunérées de l'année précédente.

#### Other tax measures for businesses:

- Temporary increase in the refundable tax credit for on-the-job training
- Temporary increase in the investment and innovation tax credit
- Extension of the employer health services fund contribution credit for employees on paid leave

## Individuals

#### Increase in the refundable tax credit for home-support services for seniors

- The tax credit for home-support services for seniors will be increased by 1% per year until 2026, gradually increasing from 35% in 2021 to 40% in 2026.
- Another measure also stipulates that seniors who benefit from the tax credit for home support and who live in an apartment building will be entitled to an increase in the tax assistance they already receive.

#### Government's intention to review certain terms and conditions of the Québec Pension Plan disability pension

- The government of Québec has announced its intention to identify necessary modifications to the QPP and to implement changes to better meet the needs of workers with disabilities aged 60 and over.

#### Reducing the financial burden on college and university students

- Québec will provide college and university students with a lump sum of \$100 for both the fall 2020 and winter 2021 semesters, if they were taken on a full-time basis.
- Québec will waive interest on student loans from April 1, 2021, to March 31, 2022.

## Québec sales tax measures

#### All foreign goods will be taxed

- • As online commerce has exploded, the government wants to collect QST on all goods coming from abroad, which was not the case until now on certain goods purchased online.

## Other measures

#### Trusts

- The budget includes various measures that apply to trusts with respect to reporting and providing information to tax authorities.

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