

2021 Issue No. 10  
25 March 2021

# Tax Alert – Canada

## Highlights

### Québec budget 2021-22

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

*“The government was forced to urgently mobilize its resources to protect health and education services, support Quebecers and assist businesses. The resulting expenditures were necessary.”*

*“The repercussions of this shock on public finances will be felt for several years to come. Vaccination will allow us to resume near-normal life, but the deficits will not go away as quickly as the pandemic.*

*We will restore fiscal balance, but we will not begin the process until after we have beaten the pandemic, returned to full employment and resumed economic growth.”*

*Éric Girard, Québec’s Minister of Finance  
2021-2022 Québec Budget Speech*

On 25 March 2021, Québec Finance Minister Éric Girard tabled the province’s fiscal 2021-22 budget. The budget contains tax measures affecting individuals and corporations. The budget contains no new taxes and no tax increases; however, it includes a reduction in the small business tax rate and a change in the rate of the tax credit for non-eligible dividends.

The minister anticipates a deficit of \$15.0 billion for fiscal 2020-21 and \$12.3 billion for fiscal 2021-22, with reduced deficits for each of the next five fiscal years. The government’s objective is to restore fiscal balance by 2027-2028.

Following are the highlights of the budget tabled by the Québec Minister of Finance. A summary of the key tax measures announced will be available in our [Tax Alert No. 11 – Québec budget 2021-2022](#).

## Business tax measures

### ➤ Corporate tax rates

- No changes to the general corporate tax rate are proposed.

However, effective 26 March 2021, the small-business tax rate will decrease to 3.2% from 4.0%. The \$500,000 small-business limit remains unchanged.

Furthermore, in order to limit the negative impact of a temporary suspension of a corporation or partnership activities that occurred after June 2020 on the calculation of the small business deduction (“SBD”), the tax legislation will be amended to introduce an option concerning the number of remunerated hours making it possible to use hours from its previous taxation year.

### ➤ Amended tax measures

- **Temporary increase in the tax credit relating to investment and innovation (“C3i”)**

The tax legislation will be amended to temporarily double the rates of the C3i so that the tax credit rate is equal to:

- 40% for a specified property acquired to be used mainly in the low economic vitality zone;
- 30% for a specified property acquired to be used mainly in the intermediate zone;
- 20% for a specified property acquired to be used mainly in the high economic vitality zone.

This temporary increase will apply to specified expenses incurred after 25 March 2021 but before 1 January 2023, to acquire a specified property after 25 March 2021 but before 1 January 2023, or to acquire a specified property after 25 March 2021 but before 1 April 2023, if certain conditions are met.

- **Changes to the tax holiday for large investment projects**

The three following changes are proposed:

- Extension of the start-up period for certain investment projects. Amendments will be made to the *Act respecting the sectoral parameters of certain fiscal measures* (Sectoral Act) so that this 60-month start-up period is extended for 12 months in respect of an investment project, or a second investment project, for which an application for an initial qualification certificate, or an application to amend the initial certificate has been made to the Minister of Finance before 25 March 2021;
- Addition of a choice for a corporation or a partnership with respect to the date of the beginning of the tax-free period for its investment project. The Sectoral Act will be amended to allow a corporation or partnership to choose the date of the beginning of the tax-free period applicable to its large investment project. However, the selected date must be included within a period, as specified in the legislation;
- Possibility for a project to modernize a business through digital transformation to be recognized as a large investment project. The digital solution must focus on value creation for all or part of the business of the corporation or partnership. In addition, the primary objective of the investment project must be one or more of the objectives set out in the legislation.

- **Temporary enhancement of the refundable tax credit for on-the-job training periods**

The tax credit rates, other than the enhanced rates applicable to eligible trainees enrolled in an education program or a prescribed program, will be increased by 25%. The amendments will apply to qualified expenditures incurred after 25 March 2021 and before 1 May 2022 in respect of a qualified training period beginning after 25 March 2021.

- **Elimination of the requirement to obtain an advance ruling for R&D tax credits**

Currently, a favourable advance ruling by the Minister of Revenue must be given for a taxpayer to be able to benefit from a R&D university tax credit or for an individual who is a member of a partnership to benefit from his portion of the R&D salary tax credit or the R&D university tax credit. Elimination of the requirement to obtain such an advance ruling is proposed to be replaced by changes to the information collected by Revenu Québec to verify the conditions for applying these tax credits.

- **Addition of restrictions to certain tax incentives**

Amendments are proposed to the tax legislation and the Sectoral Act so as to add the restrictions to ensure that their objectives of promoting certain activities or encouraging a given behaviour are achieved.

The proposed additions relate to the following tax incentives:

- Tax holiday for large investment projects
- R&D tax credits
- Tax credit for the development of e-business ["TCDE"]
- C3i
- Tax credits for multimedia titles
- Synergy capital tax credit

In summary, the added restrictions are intended to exclude the possibility of using these tax measures where activities could reasonably be considered to be related to a digital platform that hosts, or allows for the sharing, or is intended to host or allow for the sharing, of content encouraging violence, sexism, racism or any other form of discrimination or comprising explicit sex scenes or graphic representations of such scenes, except under certain conditions.

## Personal tax measures

- No changes to personal income tax rates. However, the rate of the tax credit for non-eligible dividends, which is currently 4.01% of the grossed-up dividend amount, will be reduced to 3.42% of the grossed-up dividend amount of a dividend received or deemed received after 31 December 2021.

- Enhancement to the refundable tax credit for home-support services for seniors

It is proposed that the current 35% tax credit rate be raised annually by one percentage point to reach 40% in 2026. New terms will also be introduced in relation to the mechanism for reducing the established tax credit for home-support services based on seniors' family income. Furthermore, it has been proposed to increase the eligible expenses for seniors living in a rental apartment building and to apply "minimum eligible monthly rent."

- Capital régional et coopératif Desjardins tax credit - Reduction in the non-refundable tax credit rate

The non-refundable tax credit for the acquisition of class "A" shares of the capital stock of Capital régional et coopératif Desjardins will be reduced to 30% from 35% in respect of any class "A" shares acquired after 28 February 2021.

## Québec sales tax

- Harmonization of the QST system with the federal legislative proposals tabled by the Government of Canada as part of its 30 November 2020 Economic Statement

To harmonize the QST with the legislative proposals with respect to the application of the goods and services tax and the harmonized sales tax (GST/HST) in relation to electronic commerce supplies tabled by the Government of Canada on 30 November 2020 as part of its economic statement (the “federal proposals”), the following amendments will be made to the Québec tax legislation with the required adaptations:

- **Cross-border digital products and cross-border services**  
Harmonization with the federal proposals relating to the application of GST/HST on cross-border digital products and cross-border services.
- **Goods supplied through fulfillment warehouses**  
Integration of the federal proposals for the application of GST/HST on goods supplied through fulfillment warehouses.
- **Distribution platform operators registered under the general GST/HST system**  
Integration of the federal proposals for the registration of operators of distribution platforms under the general GST/HST system.
- **Non-resident suppliers registered under the general GST/HST system**  
Integration of the federal proposals for non-resident suppliers requiring registration under the general GST/HST system.
- **Platform-based short-term accommodation**  
Integration of federal proposals relating to the application of the GST/HST to supplies of short-term accommodation in Canada facilitated by a digital platform operator.

The amendments to the Québec tax legislation will be adopted only following assent to any federal statute implementing the federal proposals, taking into account any technical amendments that may be made prior to assent. They will come into effect on the same date as the date retained to implement the federal proposals with which they are harmonized.

A summary of federal proposals announced as part of the 30 November 2020 economic statement can be found in our [Tax Alert 2020 No. 58 - Federal government announces specified GST/HST regime for e-commerce supplies.](#)

## Tax measures relating to trusts

Various administrative amendments have been announced to ensure compliance by trusts and their main players:

- Harmonization with the legislative proposals of 27 July 2018 aimed at improving the collection of beneficial ownership information with respect to trusts (the amount of the penalty will however be \$1,000 plus \$100 for each day the failure continues, up to \$5,000). (Measures are expected to apply to taxation years ending after 30 December 2021).
- Requirement for trusts resident in Canada (outside Québec) that own a rental immovable property in Quebec to file an information return is extended to testamentary trusts as well as to estates (except for graduated rate estates). (Measures applicable to taxation years ending after 30 December 2021).
- Addition of a requirement to provide a trust's tax identification number for any return, report or other document required to be filed under a tax law, after 25 March 2021.
- Addition of a requirement to provide the trust account number (which is assigned by the Minister of National Revenue) for any return, report or other document required to be filed under a tax law, after 25 March 2021.

## Other tax measures

- Amendment to the *Mining Tax Act*

The 2021-2022 Budget proposes amendments to the *Mining Tax Act* so that an eligible operator may deduct from its annual profit an amount in respect of the allowance for the development of critical and strategic minerals. Critical and strategic mineral development expenses will refer to expenses incurred which consist of an expense primarily attributable to one or more critical and strategic minerals contemplated by the budget and relating to certain specific activities. Also, changes will be made to the refundable duties credit for losses of an operator to take into account the introduction of the allowance for the development of critical and strategic minerals. Lastly, the sustainable development certification allowance will be eliminated and corresponding changes will be made to the refundable duties credit for losses.

- Maintenance of the compensation tax for financial institutions

The compensation tax for financial institutions, which was to be eliminated on 31 March 2024, will be maintained after that date. The legislation will be amended to adjust the maximum amount subject to tax, for a taxation year that includes 31 March 2024.

- Further extension of the credit on the employer contribution to the Health Services Fund in respect of employees on paid leave

Similarly to the extension of the Canada Emergency Wage Subsidy, the credit on the employer contribution to the Health Services Fund will also be extended until 5 June 2021.

- Autonomous application of the penalty for promoters of aggressive tax planning

It is maintained that the penalty will only be applied to a promoter once the Minister of Revenue has established an assessment against a taxpayer based on the application of the General Anti-Avoidance Rule (GAAR). However, it is proposed that the legislation be amended so that the penalty applicable to a promoter is not determined on the basis of the penalty imposed on the taxpayer, but independently.

## Learn more

For more information, please contact your EY or EY Law advisor or one of the following professionals:

**Jonathan Bicher, Montréal**

514 731 7902 | [jonathan.bicher@ca.ey.com](mailto:jonathan.bicher@ca.ey.com)

**Stéphanie Jean, Montréal**

514 879 8047 | [stephanie.jean@ca.ey.com](mailto:stephanie.jean@ca.ey.com)

**Stéphane Leblanc, Montréal**

514 879 2660 | [stephane.leblanc@ca.ey.com](mailto:stephane.leblanc@ca.ey.com)

**Sandy Maag, Montréal**

514 874 4377 | [sandy.maag@ca.ey.com](mailto:sandy.maag@ca.ey.com)

**Benoît Millette, Montréal**

514 879 3562 | [benoit.millette@ca.ey.com](mailto:benoit.millette@ca.ey.com)

**Kimrang Te, Montréal**

514 879 6856 | [kimrang.te@ca.ey.com](mailto:kimrang.te@ca.ey.com)

**Nancy Avoine, Québec**

418 640 5129 | [nancy.avoine@ca.ey.com](mailto:nancy.avoine@ca.ey.com)

**Sylvain Paquet, Québec**

418 640 5138 | [sylvain.paquet@ca.ey.com](mailto:sylvain.paquet@ca.ey.com)

For up-to-date information on the federal, provincial and territorial budgets, visit [ey.com/ca/budget](https://ey.com/ca/budget)

## EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via [ey.com/privacy](http://ey.com/privacy). For more information about our organization, please visit [ey.com](http://ey.com).

**About EY's Tax Services** EY's tax professionals across Canada provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. We offer a range of tax-saving services backed by in-depth industry knowledge. Our talented people, consistent methodologies and unwavering commitment to quality service help you build the strong compliance and reporting foundations and sustainable tax strategies that help your business achieve its potential. It's how we make a difference.

For more information, visit [ey.com/ca/tax](http://ey.com/ca/tax).

**About EY Law LLP** EY Law LLP is a national law firm affiliated with EY in Canada, specializing in tax law services, business immigration services and business law services.

For more information, visit [eylaw.ca](http://eylaw.ca).

**About EY Law's Tax Law Services** EY Law has one of the largest practices dedicated to tax planning and tax controversy in the country. EY Law has experience in all areas of tax, including corporate tax, human capital, international tax, transaction tax, sales tax, customs and excise.

For more information, visit <http://www.eylaw.ca/taxlaw>

© 2021 Ernst & Young LLP. All Rights Reserved.

A member firm of Ernst & Young Global Limited.

*This publication contains information in summary form, current as of the date of publication, and is intended for general guidance only. It should not be regarded as comprehensive or a substitute for professional advice. Before taking any particular course of action, contact EY or another professional advisor to discuss these matters in the context of your particular circumstances. We accept no responsibility for any loss or damage occasioned by your reliance on information contained in this publication.*

[ey.com/ca](http://ey.com/ca)