

Tax Memo

2010 Quebec Budget

Table of Contents

Introduction	2	Adjustment to the limit relating to the deductibility of investment expenses	5
Corporate Tax Measures	2	Introduction of a water royalty.....	6
Revision of the mining duties regime	2	Personal Tax Measures	6
Replacement of the international financial centres (IFC) regime with a refundable tax credit.....	2	Introduction of a health contribution as of July 1, 2010 ...	6
Adjustments to the refundable tax credits for the production of multimedia titles to allow for convergence with digital animation films.....	2	Introduction of a solidarity tax credit	6
Improvements to the refundable tax credit for film dubbing.....	3	Reduction in the frequency requirement for certain home support services offered by residences for the elderly	7
New excluded amounts of assistance for the purposes of the refundable tax credit for Québec film and television production.....	3	Increase in the frequency of advance payments of the tax credit for child care expenses and the work premium	7
Tax relief for non-residents occupying key positions in a foreign production filmed in Québec.....	3	Measures relating to Consumption Taxes	7
Changes to the refundable tax credit for R&D salaries ...	3	Additional increase in the rate of the Québec sales tax as of January 1, 2012.....	7
Clarification in relation to the tax credit for technology adaptation services and the tax credits for R&D.....	4	Improvement to the QST rebate regarding a new residential unit.....	8
Extension of the scope of the easing regarding the twelve-month period for filing documents applicable to the refundable tax credits for R&D	4	Application of the QST to the passenger transportation service beginning at Gatineau airport and ending in Canada.....	8
Adjustment to the refundable tax credit for the development of e-business for activities transfer and business start-up situations	4	Change to the tax structure of the pari mutuel.....	8
Increase in the capital cost allowance rate applicable to trucks and tractors designed for hauling freight and introduction of an additional deduction	5	Gradual rise in the fuel tax.....	8
Extension of the refundable tax credit for the construction and major repair of public access roads and bridges in forest areas	5	Further reduction of the specific tax applicable to alcoholic beverages sold by a small-scale producer	8
Temporary increase in the rates applicable to two bases of the compensatory tax on financial institutions	5	Other Measures	8
		Longer prison sentence for tax evasion	8
		Impact of the accounting reform on appropriations.....	8
		Federal Legislation and Regulations	9
		Measures relating to the March 4, 2010 federal budget...9	
		Measures relating to the <i>Excise Tax Act</i>	10
		For More Information	10

Introduction

“The budget I am tabling today lays the groundwork for Québec’s future, while enabling us to meet our immediate challenges. Today, the government is making decisive choices and proposing sustainable solutions,” declared Finance Minister Raymond Bachand. Here are the budget highlights.

Corporate Tax Measures

Revision of the mining duties regime

First, the tax rate will be raised gradually from 12% to 16%.

Second, changes will be made to three allowances an operator may claim:

- The rate of the depreciation allowance will be reduced from 100% to 30% for property acquired after March 30, 2010.
- The parameters used to calculate the processing allowance will be reviewed.
- The additional allowance for a northern mine will be replaced with an additional allowance for a mine located in Northern Québec.

Third, major changes will be made to the treatment applicable to all the exploration, mineral deposit evaluation and mine development expenses an operator may incur, in particular by creating three different cumulative accounts covering such expenses. These three cumulative accounts will give rise to three separate allowances.

Fourth, the credit on duties refundable for losses will be limited.

Fifth, the calculation method of an operator’s annual profit will be changed by making use of a “mine-by-mine” approach.

Sixth, special rules will be put in place to facilitate the determination of the gross value of annual output attributable to precious stones.

Lastly, a clarification will be made to the treatment applicable to certain amounts paid by an operator to a community or a municipality, which will not be deductible.

Replacement of the international financial centres (IFC) regime with a refundable tax credit

The IFC regime will be replaced with a refundable tax credit of up to \$20,000 per eligible employee on an annual basis applying to the eligible salary paid to eligible employees of an IFC operator. In addition, an IFC must henceforth have at least six eligible employees and be operated by an eligible corporation.

Operators of existing IFCs may elect, as of March 31, 2010, to receive this new refundable tax credit.

Operators of existing IFCs that do not elect to receive the new refundable tax credit may continue to be covered by the existing regime until December 31, 2012 where the operator is a corporation or until December 31, 2013 where the operator is a partnership.

An IFC employee, other than a foreign specialist, who currently claims a deduction in the calculation of taxable income of up to \$50,000 per year, may continue to receive a tax benefit, which, however, will gradually reduce, until December 31, 2013.

Lastly, the rules concerning the deduction in calculating taxable income that a foreign specialist working for an IFC may claim will be maintained.

Adjustments to the refundable tax credits for the production of multimedia titles to allow for convergence with digital animation films

Henceforth, besides eligible multimedia titles according to the existing rules, eligible related titles may give rise to the tax credit for multimedia titles (general component) or to the tax credit for specialized corporations, as the case may be.

Eligible related title

An eligible related title of a corporation means a property that satisfies the following conditions:

- it is produced by the corporation;
- it includes a significant volume of three of the following four types of information: text, sound, still images and animated images;
- it is related to a principal multimedia title;
- it is not an excluded multimedia title.

Broadening of eligible production work

The 24-month period following the completion of a final version currently stipulated for the eligibility of the production work of a multimedia title will be extended to 36 months.

Eligible production work will henceforth include the activities relating to system architecture.

These changes regarding the extension of the eligibility period and the addition of an eligible activity will also apply to eligible production work relating to an eligible related title.

Application date

These changes will apply to a certification application filed with *Investissement Québec* after March 30, 2010.

Improvements to the refundable tax credit for film dubbing

Increase in the rate of the tax credit and the cap on consideration paid

The rate of the tax credit for film dubbing will rise from 30% to 35% and the cap on the consideration paid for the execution of a film dubbing contract, currently 40.5%, will be raised to 45%. Consequently, the tax assistance allowed may reach 15.75% of such consideration.

Three new eligible dubbing services will be added for the purposes of calculating the eligible expenditure for film dubbing, provided they are provided in Québec.

Application date

These changes will apply to a production for which a final certification application is filed with the *Société de développement des entreprises culturelles* after March 30, 2010.

New excluded amounts of assistance for the purposes of the refundable tax credit for Québec film and television production

The tax legislation will be amended so that an amount of financial assistance provided by the *Fonds francophone d'aide au développement cinématographique* and an amount of financial assistance provided under the *Mesure régionale d'aide au démarrage de productions cinématographiques et télévisuelles* constitute excluded

amounts of assistance for the purposes of the tax credit for Québec film and television production.

This amendment will apply as of January 1, 2009.

Tax relief for non-residents occupying key positions in a foreign production filmed in Québec

The legislation will be amended to allow individuals who sojourn in Québec and occupy a decision-making position on a foreign production, or a key position in the postproduction stage of such a production, to take advantage, as of the 2010 taxation year, of tax relief identical to that which is currently granted to foreign producers regarding payments received for services supplied in Québec.

Changes to the refundable tax credit for R&D salaries

Clinical trial

The tax legislation will be amended so that a research subject who participates in a clinical trial carried out by another person in accordance with the standards set by the Food and Drug Regulations adopted under the *Food and Drugs Act* is deemed to carry out work, for the purposes of the refundable tax credit for R&D salaries.

Standardization of the tax treatment of the indemnity paid to a research subject for the purposes of the refundable tax credit for R&D salaries

The tax legislation will be amended so that the portion of the consideration paid to the first or the second subcontractor, as the case may be, that is reasonably attributable to R&D work or to work relating to an R&D project, is not reduced by the amount of the indemnity paid to a research subject who participates in the clinical trial and is not an employee of the first or the second subcontractor, as the case may be.

Application date

These amendments will apply regarding an expenditure incurred by a taxpayer for a taxation year for which the Minister of Revenue may, on March 30, 2010, determine or determine once again the refundable tax credit for R&D salaries, for such year, and make an assessment or a new assessment or establish a supplementary assessment in relation to such tax credit.

Non-taxation of the indemnity paid to a research subject

The tax legislation will be amended so that the income, for a taxation year, from indemnities paid to a research subject who participates in clinical trials carried out by another person in accordance with the standards set by the Food and Drug Regulations adopted under the *Food and Drugs Act*, is not taxable up to a limit of \$1,500 for such year.

This amendment will apply as of the 2010 taxation year.

Arm's length subcontracting

The tax legislation will be amended so that, for a taxation year, the refundable tax credit for R&D salaries also applies to the half of the portion of the consideration that is, first, paid by a taxpayer to a corporation or a partnership with which it is at arm's length, or that is paid by a first-level subcontractor – that entered into a subcontract with the taxpayer and that is not at arm's length with him – to a corporation or a partnership that is at arm's length with the taxpayer, and that is, second, reasonably attributable to R&D work or work relating to an R&D project carried out in such year on behalf of the taxpayer, in Québec, by an individual (other than a trust) who is a shareholder of such corporation or a member of such partnership.

Application date

This amendment will apply regarding an expenditure incurred by a taxpayer for a taxation year for which the Minister of Revenue may, on March 30, 2010, determine or determine once again the refundable tax credit for R&D salaries, for such year, and make an assessment or a new assessment or establish a supplementary assessment in relation to such tax credit.

Clarification in relation to the tax credit for technology adaptation services and the tax credits for R&D

The tax legislation will be clarified so that an expenditure incurred by a taxpayer for a taxation year is not eligible for the purposes of the refundable tax credit for technology adaptation services for such year, if it is otherwise eligible for the purposes of one of the refundable tax credits for R&D.

This clarification will apply in regard to an expenditure incurred after March 30, 2010.

Extension of the scope of the easing regarding the twelve-month period for filing documents applicable to the refundable tax credits for R&D

Extension of the scope of the easing to all refundable tax credits pertaining to businesses

The tax legislation will be amended so that an expenditure incurred by a taxpayer for a taxation year regarding which the taxpayer filed a prescribed form containing the prescribed information for the purposes of a refundable tax credit no later than twelve months after the filing deadline applicable to him for the year, can be reported by the taxpayer for such taxation year on a prescribed form containing the prescribed information filed by the taxpayer, after such twelve-month period, for the purposes of another refundable tax credit he claims and that seeks to replace the one he initially claimed.

This amendment will apply to a claim or a new claim in relation to a refundable tax credit made after March 30, 2010.

Adjustment to the refundable tax credit for the development of e-business for activities transfer and business start-up situations

Transfer of activities

The qualification of a corporation as a qualified corporation for the taxation year during which a transfer of activities is carried out may be made for each of the two parts of the taxation year, i.e. the part of such taxation year preceding the transfer and the part of such taxation year following the transfer. In addition, for a corporation to benefit from these adjustments regarding a transfer of activities, the transferred activities must be of a scope such that they require, at the time of the transfer, a minimum of six eligible full-time employees.

Business start-ups in Québec

Concerning the specific case of starting up a business in Québec, a corporation may qualify as a qualified corporation regarding the part of a taxation year that finishes at the end of such taxation year and starts the day when the corporation's eligible activities required, at all times during that part of the taxation year, a minimum of six eligible full-time employees. In addition, the corporation must satisfy the two criteria relating to the proportions of activities it carried out and the criterion relating to services supplied, in relation to that part of a taxation year.

Application date

These adjustments will apply regarding salaries incurred by an eligible corporation and paid to eligible employees after March 13, 2008, and before January 1, 2016.

Moreover, the tax legislation will be amended to allow a corporation to claim the refundable tax credit for development of e-business for a taxation year, even if the claim for this tax credit is made more than twelve months following the filing deadline applicable to it for the year. This amendment will target situations where the corporation could not obtain the required eligibility certificates without these adjustments to the eligibility criteria and where the claim for the tax credit is made no later than 18 months after March 30, 2010.

Increase in the capital cost allowance rate applicable to trucks and tractors designed for hauling freight and introduction of an additional deduction

Québec's tax regulations will be amended so that a capital cost allowance rate of 60%, according to the diminishing balance method, is applicable to property consisting of a truck or a tractor designed for hauling freight, and that is primarily so used by the taxpayer or a person with whom he does not deal at arm's length, in a business that includes hauling freight, where the gross vehicle weight rating exceeds 11,788 kilograms.

To give rise to this 60% capital cost allowance rate, such a truck or tractor must be new at the time of its acquisition by the taxpayer and be acquired after March 30, 2010.

Introduction of an additional 85% deduction

Québec's tax legislation and regulations will be amended to enable a taxpayer to claim an additional deduction of 85% of the amount deducted in calculating his income for the year on account of capital cost allowance in respect of a truck or tractor designed for hauling freight and covered by the 60% capital cost allowance where such truck or tractor is fuelled by liquefied natural gas .

The truck or tractor covered by this additional deduction must, during a period of 730 consecutive days following the day it was first used, be used mainly in hauling freight by the taxpayer, or the person with whom he does not deal at arm's length, except in the case of involuntary loss or destruction caused, in particular, by an accident or theft, or in the case of a major breakdown of the property.

Determination of the additional deduction

The amount a taxpayer may deduct in calculating his income on account of the additional deduction for a taxation year will correspond to 85% of the amount he deducts in calculating his income for the year on account of capital cost allowance in respect of the properties covered.

Other terms and conditions

Such additional deduction will not be recaptured following the alienation of the property.

Extension of the refundable tax credit for the construction and major repair of public access roads and bridges in forest areas

The refundable tax credit for the construction and major repair of public access roads and bridges in forest areas will be extended until March 31, 2013, but at respective annual rates of 80%, 70% and 60%.

Temporary increase in the rates applicable to two bases of the compensatory tax on financial institutions

The rates applicable to financial institutions will be raised:

- for salaries paid:
 - in the case of a bank, loan company or trust company, by 1.9 percentage points, to 3.9%;
 - in the case of a savings and credit union, by 1.3 percentage points, to 3.8%;
 - in the case of any other person, by 0.5 percentage points, to 1.5%;
- for insurance premiums and amounts established regarding insurance funds, by 0.2 percentage points, to 0.55%.

Application date

The rate increases will apply regarding taxation years ending after March 30, 2010 and beginning before April 1, 2014.

Adjustment to the limit relating to the deductibility of investment expenses

A taxpayer may deduct in calculating his property income, for a taxation year, an amount consisting of a debt that he included in calculating his property income for the year or a prior taxation year and that he determines has become a bad debt in the year.

Québec's tax legislation will be amended so that the notion of investment expenses, for the purposes of the limit on the deductibility of investment expenses, no longer includes an amount of bad debt deducted by an individual in calculating his property income for the year.

This change will apply regarding an amount of bad debt deducted in the calculation of an individual's income for the 2009 and subsequent taxation years.

Introduction of a water royalty

The royalty will target businesses in the industrial and commercial sectors drawing 75 m³ of water or more per day either directly or from water mains. The royalty will not apply to the residential, institutional or farm sectors.

The royalty will apply two rates that depend on the use of the resource. Thus, the rate will be \$0.0025/m³ for businesses using water in their production processes and \$0.07/m³ for those using water as a component of their products.

Personal Tax Measures

Introduction of a health contribution as of July 1, 2010

A health contribution will be introduced as of July 1, 2010. The amount of the health contribution will be \$25 per adult for 2010, \$100 per adult for 2011 and \$200 per adult as of 2012.

Liability for the health contribution

All individuals (other than trusts) who, at the end of a year, are resident in Québec and 18 years of age will be required to pay the health contribution for that year.

Exemption threshold

An adult will be exempt from paying the health contribution for a given year if his or her family income for the year is equal to or less than the exemption threshold applicable to the adult for the year. This threshold will correspond to the amount which is granted to the adult for the year for deduction purposes in the calculation of the premium for the public prescription drug insurance plan.

To illustrate, the table below shows the amount of each of the deductions granted for 2009, based on household composition, for the purposes of calculating the premium for the public prescription drug insurance plan.

Deductions varying with household composition (dollars)

Household Composition	Amount of the deduction
1 adult, no dependent children	14 040
1 adult, 1 dependent child	22 750
1 adult, 2 or more dependent child	25 790
2 adults, no dependent children	22 750
2 adults, 1 dependent child	25 790
2 adults, 2 or more dependent children	28 595

Introduction of a solidarity tax credit

The refundable tax credit for the Québec sales tax (QST), the property tax refund and the refundable tax credit for individuals living in a northern village will be grouped into a single refundable tax credit – the solidarity tax credit. The tax credit will be paid monthly. The first payment of the solidarity tax credit will be made in July 2011.

General eligibility conditions

Eligible individual

- Be at least 18 years of age (subject to certain exceptions);
- Be a resident of Quebec;
- Hold a recognized status (e.g., Canadian citizen, permanent resident, refugee);
- Not be confined to prison.

Claiming the tax credit

To take advantage of the solidarity tax credit, eligible individuals must submit a claim to the Minister of Revenue at tax time. If an eligible individual ordinarily lives with another eligible individual who is his or her cohabiting spouse, only one of them may claim the tax credit.

The tax credit must be claimed on the income tax return in all cases where the individual was living in Québec on December 31 of the year preceding the year for which the tax credit is claimed. In all other cases, the tax credit must be claimed using the form prescribed by the Minister of Revenue.

An individual who claims the new solidarity tax credit must agree to have the payments made by direct deposit into an account held by the individual in a financial institution located in Québec.

Determination of the tax credit

Determination of the tax credit

Addition of the amounts granted under each of the components of the tax credit:

- QST component
- Housing component
- Individuals living in a northern village component

Reduction on the basis of family income.

Reduction in the frequency requirement for certain home support services offered by residences for the elderly

Persons who pay rent to live in a residence for the elderly must determine the amount of eligible expenses included in their rent using one of two tables for determining such expenses.

In addition to a basic component, each of the tables has five items covering the various types of home support services (namely, laundry, housekeeping, daily meals, nursing and personal care) generally offered by residences for the elderly.

Adjustment of the prescribed frequency for certain services

Housekeeping services

The prescribed frequency for housekeeping services will be reduced from a frequency of at least once a week to at least once every two weeks.

Nursing services

The prescribed frequency for nursing services will be reduced from a period of at least seven hours presence a day to a period of at least three hours presence a day.

Application date

The reduction will apply as of the 2010 taxation year.

Increase in the frequency of advance payments of the tax credit for child care expenses and the work premium

Advance payments of these tax credits will all be made, as of 2011, on a monthly rather than a quarterly basis.

Measures Relating to Consumption Taxes

Additional increase in the rate of the Québec sales tax as of January 1, 2012

The government announced, in the 2009-2010 Budget Speech, an increase of one percentage point in the rate of the Québec sales tax (QST) as of January 1, 2011.

It has decided, as part of the 2010-2011 Budget Speech, to raise the QST rate by a further percentage point as of January 1, 2012, bringing it to 9.5%.

To compensate low- and middle-income households for the increase in their tax burden resulting from this increase, the component relating to the QST of the new solidarity tax credit will be raised.

Clarifications relating to the application of the increase in the QST rate

The increase in the QST rate to 9.5% will be applied regarding taxable supplies in relation to which this tax will become payable as of January 1, 2012.

Consequential amendments

Rounded-off mathematical factors

The QST system authorizes a registrant, in certain circumstances, to calculate the tax payable in respect of a supply it makes using mathematical factors rounded off to 7.87% or 12.87% (8.92% or 13.92% as of 2011). A registrant can use these rounded-off mathematical factors if the cash register it normally uses is not sophisticated enough for it to calculate the QST using the real rate of 7.5% (8.5% as of 2011) or mathematical factors with three decimal places, i.e. 7.875% or 12.875% (8.925% or 13.925% as of 2011).

These three-decimal mathematical factors will be 9.975% and 14.975%, with the result that the rounded-off mathematical factors that can be applied as of January 1, 2012 will be 9.97% and 14.97%.

Taxable benefit related to the cost of operating an automobile

In the case of a benefit related to the cost of operating an automobile, the amount of tax to be included in the calculation of the registrant's net tax corresponds, for the 2011 taxation year, to 5.4% of the value of such benefit.

The 5.4% rate will be raised to 6% as of the 2012 taxation year.

Quick accounting methods

Quick method for small businesses

Small businesses whose revenues from taxable supplies do not exceed \$215,000 (\$217,000 as of 2011) can use a quick method to determine the net tax payable for a reporting period.

To reflect the setting of the QST rate at 9.5%, the revenue amount of \$217,000 applicable as of 2011 will be raised to \$219,000 and the prescribed rate will be raised to 3.4% for vendors of corporeal movable properties and to 6.6% for other businesses.

Quick method for certain public service bodies

Certain public service bodies can use a quick method to determine their net tax payable for a reporting period by applying a prescribed rate to their total revenues from taxable supplies, including GST and QST. The prescribed rate is 4.6% for municipalities (5.2% as of 2011) and 5.9% for other bodies (6.6% as of 2011).

To reflect the rise of the QST rate to 9.5%, the prescribed rate for municipalities will rise to 5.7% and the prescribed rate will rise to 7.3% for other bodies.

Application date

The new prescribed rates as well as the new revenue amount of \$219,000 for small businesses will apply to any reporting period starting after December 31, 2011.

Improvement to the QST rebate regarding a new residential unit

The rate of the rebate will rise from 36% to 50% and the threshold value of a new residential unit at which no rebate is granted will be raised from \$225,000 to \$300,000. Consequently, the maximum rebate that may be obtained will be \$8,772.

Application of the QST to the passenger transportation service beginning at Gatineau airport and ending in Canada

This specific zero-rating measure will be eliminated.

This change to the QST system will apply regarding the supply of such a passenger transportation service made after June 30, 2010.

Change to the tax structure of the pari mutuel

The tax structure of the pari mutuel will be changed to apply only a single rate to a bet. This single rate will be 2.5%.

This measure will apply to a bet placed by a person after March 30, 2010.

Gradual rise in the fuel tax

The regular rates of the fuel tax of 15.2 cents per litre of gasoline and 16.2 cents per litre of diesel fuel will be raised by 1 cent per litre per year until fiscal year 2013-2014. More specifically, these rises will apply on April 1 of each year, from 2010 to 2013.

Further reduction of the specific tax applicable to alcoholic beverages sold by a small-scale producer

The worldwide volume of alcoholic beverages, other than beer, sold during a calendar year beyond which a small-scale producer can no longer apply the reduced rates will be raised from 5,000 to 15,000 hectolitres.

Moreover, the rates will continue to be reduced by 100% on the first 1,500 hectolitres of beverages sold in a calendar year, but will henceforth be reduced by approximately 85% on additional sales, up to 13,500 hectolitres.

This measure will apply to all alcoholic beverages, other than beer, sold by a small-scale producer after March 30, 2010.

Other Measures

Longer prison sentence for tax evasion

Amendments will be made to the *Act respecting the ministère du Revenu* regarding major tax offences in order to raise the maximum prison sentence a court may impose for such offences to five years less one day.

This measure will come into force on the date the bill giving effect thereto is assented to.

Impact of the accounting reform on appropriations

As a result of the 2007 accounting reform, the government adds to its results those of the organizations that have been added to its reporting entity, particularly those of the education and health and social services networks.

The fact that these network organizations are required to use the government's accounting policies, especially for fixed assets, provisions for sick leave and vacations and adopt accrual accounting for all their revenues and

expenditures means that expenditures must be recorded for years prior to April 1, 2008 because of changes in the way these items are accounted for.

The *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform*, adopted in September 2009, contains the provisions needed for expenditures to be recorded as part of the net debt as at April 1, 2008.

Since the law was adopted in September 2009, the organizations of these networks have completed the work of harmonizing their accounting policies with those of the government. The expenditures to be recorded as net debt as at April 1, 2008 have been revised to \$8,749.4 million. This is a \$2,104.4-million increase over the amount that was forecast initially.

Federal Legislation and Regulations

Measures relating to the March 4, 2010 federal budget

Measures relating to the Income Tax Act

Measures retained

Measures relating to:

1. the transfer to a registered disability savings plan of an amount received from certain registered savings plans for retirement, following the death of an individual who was the participant or the annuitant, as the case may be, by a child or a grandchild who was financially dependent on the individual immediately prior to his death subject to the reserve that the incorporation of these measures will be by reference to the federal tax legislation;
2. the tax treatment of amounts paid, directly or indirectly, by a provincial government into a registered education savings plan or a registered disability savings plan;
3. the disbursement quota that registered charities must satisfy;
4. the addition of a requirement to be entitled to the deduction for employee stock options;
5. the withdrawal of the election to defer taxation of a benefit arising from the exercise of a stock option granted to an employee of a corporation, other than a Canadian-controlled private corporation (CCPC), or a mutual fund trust and the obligation to withhold tax at source;
6. the temporary relief allowed to individuals who elected to defer taxation of a benefit arising from the exercise of a stock option granted to an employee of a corporation, other than a CCPC, or a mutual fund

trust, subject to the specific features described below;

7. the non-taxation of part of certain benefits received under U.S. social security legislation;
8. the changes made to the definition of “principal-business corporation” applicable as part of the flow-through share system;
9. the changes made to the acquisition of control rules upon the conversion of a specified investment flow-through entity to a corporation;
10. the changes made to the definition of “taxable Canadian property” and the correlative adjustments;
11. the changes made to the relief mechanism applicable to foreign tax paid;
12. the changes concerning the accelerated capital cost allowance on account of clean energy generation applicable to heat recovery equipment and distribution equipment of a district energy system;
13. the changes concerning the capital cost allowance applicable to satellite and cable set-top boxes;
14. the changes to specified leasing property rules.

Special features relating to the temporary relief from the tax treatment applicable following the alienation of certain securities acquired under an employee stock option

Where an individual, during a given taxation year and before 2015, disposes of securities regarding which a valid election to defer taxation of the benefit attributable to their acquisition was made for the purposes of paragraph 8 of section 7 of the *Income Tax Act* and he made the election, on the prescribed form, to claim preferential tax treatment for the given year, the following rules will apply:

- the rate of the deduction relating to the employee stock options will rise, regarding securities covered by these elections, from 50% to 100% if the securities were alienated or exchanged before June 13, 2003 or if they were acquired under a stock option granted after March 13, 2008 by a small or medium-size enterprise carrying out innovation activities, from 37.5% to 87.5% if the securities were alienated or exchanged after June 12, 2003 and before March 31, 2004 and from 25% to 75% if the securities were alienated or exchanged after March 30, 2004;
- an amount equal to 50% of the lesser of the value of the taxable benefit attributable to the acquisition of such securities and the capital loss resulting from their alienation will be included, on account of taxable capital gain, in the calculation of the individual’s income for the given year;

- a special tax, equal to 50% of the proceeds of alienation of the securities, must be paid by the individual for the given year.

For greater clarity, and individual may, for the purposes of Québec's tax system, make an election separate from the one he made for the purposes of the federal tax system concerning preferential tax treatment.

Measures relating to the *Excise Tax Act*

Changes will be made to the Québec sales tax (QST) system to incorporate, with adaptations based on its general principles and subject to specific Québec features, the federal measures concerning the application of the GST/HST to purely cosmetic procedures and the simplification of the GST/HST for the direct selling industry.

For More Information

For more information, please contact your PricewaterhouseCoopers tax adviser or:

Montreal	
Pierre Lessard	514 250 5034 pierre.lessard@ca.pwc.com
Québec City	
Rémi Tremblay	418 691 2488 remi.tremblay@ca.pwc.com

Tax News Network (TNN) provides subscribers with Canadian and international information, insight and analysis to support well informed tax and business decisions. Try it today at www.ca.taxnews.com