

## MESSAGE FROM THE MANAGING PARTNER

When I joined PSB over 25 years ago, I was impressed to find myself surrounded by an internal culture of team work and camaraderie, a trend that has continued over these many years. For the past seven years, I have assumed the role of Managing Partner of PSB, a responsibility which I undertake with great pride.

The Partners of PSB have created a firm with an entrepreneurial philosophy that is dedicated to providing outstanding client service. Our efforts and energy are poured into developing specialized services to respond to the varied financial needs of our clients. Over the years, the firm has experienced significant growth and success not only in size but in the extent of services that we are able to offer. Our team is one I am extremely proud of, consisting of a balance of both experienced and young and dynamic partners, surrounded by employees who hold their profession in high regard. We all share a common goal and work as a collaborative team, enabling us to offer the best to our clients. Our objective is to sustain a competent, intelligent, energetic group governed by unconditional integrity and a commitment to respect the high standards of the profession. PSB is characterized by its team spirit at all levels, from partner to employee. Our shared expertise and experience are our strengths.

For the past 10 years, we have grown continuously, a credit to this esteemed group of devoted individuals. But what will always remain constant is our commitment to achieving professional excellence at all times. On behalf of all the talented professionals at PSB, I thank you for your continued support and confidence in our firm and look forward to providing you with outstanding service for years to come.

*Marc Elman, CA, CBV*

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## FEDERAL BUDGET

### Personal Income Tax Measures

#### WORKING INCOME TAX BENEFIT

The WITB will provide a refundable tax credit equal to 20 per cent of each dollar of earned income in excess of \$3,000 to a maximum credit of \$500 for single individuals without dependants (single individuals) and \$1,000 for families (couples and single parents).

The credit will be reduced by 15 per cent of net family income in excess of \$9,500 for single individuals and \$14,500 for families.

A single individual will be eligible for the WITB if

the individual is resident in Canada and is, at the end of the taxation year, at least 19 years of age.

Students with no dependent children, who are enrolled as full-time students for more than three months in the taxation year will not be eligible for the WITB.

#### WITB Supplement for Persons with Disabilities

The WITB will include an additional disability supplement for each individual, other than a dependant, who is eligible for the disability tax

credit (DTC), who has at least \$1,750 in individual earned income and who meets other eligibility requirements for the WITB.

The WITB and the disability supplement will be effective for the 2007 taxation year.

## PREPAYMENT

The budget proposes that a prepayment mechanism will be put in place beginning in 2008.

## REGISTERED DISABILITY SAVINGS PLAN

The budget proposes to introduce a new Registered Disability Savings Plan (RDSP) with a Canada Disability Savings Grant (CDSG) program and Canada Disability Savings Bond (CDSB) program. The RDSP will be based generally on the existing Registered Education Savings Plan (RESP) design.

## CONTRIBUTIONS

Contributions to an RDSP will be limited to a lifetime maximum of \$200,000 in respect of the beneficiary, with no annual limit.

Contributions will be permitted until the end of the year in which the beneficiary attains 59 years of age.

## CANADA DISABILITY SAVINGS GRANTS (CDSGS)

### Matching Rates on Contributions

Family Net Income (\$)	
Up to 74,357	Over 74,357
300% on first \$500	100% on first \$1,000
200% on next \$1,000	

There will be a lifetime limit of \$70,000 on CDSGs paid in respect of an RDSP beneficiary. An RDSP will be eligible to receive CDSGs until the end of the year in which the beneficiary attains 49 years of age.

## CANADA DISABILITY SAVINGS BONDS (CDSBS)

CDSBs of up to \$1,000 will be paid annually to the RDSPs of low and modest-income beneficiaries and families.

## PAYMENTS

Payments from an RDSP will be required to commence by the end of the year in which the beneficiary attains 60 years of age.

## REPAYMENTS OF CDSGS AND CDSBS

There will be a requirement for an RDSP to repay to the government all CDSGs and CDSBs (and associated investment income) paid to the plan in the ten years preceding a payment from the plan, upon the cessation of the beneficiary's eligibility for the DTC or the death of the beneficiary.

## PRIVATE FOUNDATIONS

### Eliminating Capital Gains Tax on Charitable Donations to Private Foundations

The budget proposes to eliminate the taxation of capital gains arising from donations of publicly-listed securities to private foundations.

In addition, when an arm's length employee acquires a publicly-listed security under an option granted by the employer and donates the security to a public charity within 30 days, the employee may be eligible for a special deduction, the general effect of which is to exempt the associated employment benefit from tax.

This zero inclusion rate for gains and income in respect of publicly-listed securities will apply to gifts made on or after March 19, 2007.

## REGISTERED EDUCATION SAVINGS PLANS

### The Canada Education Savings Grant

#### Changing the Contribution and CESG Limits

The budget proposes the following changes:

- The \$4,000 annual RESP contribution limit will be eliminated, and the lifetime RESP contribution limit will be increased to \$50,000 from \$42,000.
- The maximum annual RESP contribution qualifying for the 20-per-cent CESG will be increased to \$2,500 from \$2,000, thus increasing the maximum CESG per beneficiary for 2007 and subsequent years to \$500 from \$400. The \$7,200 lifetime CESG limit will be unaffected by this change.

These changes will apply to contributions made after 2006,

## ELEMENTARY AND SECONDARY SCHOOL SCHOLARSHIPS

The budget 2007 proposes to fully exempt scholarships and bursaries that are provided to attend elementary and secondary schools.

This measure will apply for the 2007 and subsequent taxation years.

## NEW CHILD TAX CREDIT

The budget proposes to introduce a new non-refundable child tax credit for parents based on an amount of \$2,000 (indexed) for each child under the age of 18 years at the end of a taxation year.

This new tax credit will take effect beginning in 2007, and will provide personal income tax relief of up to \$310 per child.

Any unused portion of the credit will be transferable by a parent to the parent's spouse or common-law partner.

Where the child resides together with the child's parents throughout the year, either of those parents may claim the credit. In other cases, the credit will be claimable in respect of a child by the parent who is eligible to claim the wholly dependent person credit for the year in respect of a child (or who would be so eligible if that child were the parent's only child).

## SPOUSAL AND OTHER AMOUNTS

The budget proposes to increase the amount upon which the spouse or common-law partner and wholly dependent relative credits are calculated by \$1,348—thus matching the basic personal amount, with a corresponding elimination of the threshold above which the dependant's net income must be taken into account. These changes will take effect beginning in 2007.

For the 2008 and subsequent taxation years, these personal credit amounts will be increased by the same amounts that are currently legislated for the basic personal amount.

## PUBLIC TRANSIT TAX CREDIT

### Electronic Payment Cards

The budget proposes to extend the eligibility for the public transit tax credit to accommodate these electronic payment cards. Under this proposal, the cost of an electronic payment card will be eligible for the credit if:

- the cost relates to the use of public transit for at least 32 one-way trips during an uninterrupted period not exceeding 31 days, and
- that transit usage, and cost of those trips, are recorded and receipted to the purchaser by the relevant transit authority, in sufficient detail as to allow the Canada Revenue Agency to verify eligibility for the credit.

This measure will apply to electronic payment cards issued after 2006.

## WEEKLY PASSES

The budget proposes to extend eligibility for the public transit tax credit to accommodate weekly passes where an individual purchases at least four consecutive weekly passes. For the purposes of this measure, weekly passes will include passes that provide a passholder the right to unlimited public transit use within a period of between 5 and 7 days.

This measure will apply to weekly passes valid for use after 2006.

## LIFETIME CAPITAL GAINS EXEMPTION

The budget proposes to increase the LCGE such that it will apply to up to \$750,000 of capital gains realized by an individual on qualified properties.

This measure will apply to dispositions of property that occur on or after March 19, 2007.

## MEAL EXPENSES OF TRUCK DRIVERS

The budget proposes to increase, over five years, to 80 per cent the deductible portion of the cost of food and beverages consumed by long-haul truck drivers during eligible periods of travel. This measure will also apply to employers that pay, or reimburse, such costs incurred by long-haul truck drivers that they employ.

A long-haul truck will be a truck or tractor included in category 16.

An eligible period of travel during which the higher deductibility percentage will apply in respect of a long-haul truck driver is a period during which:

- The driver is away for at least 24 continuous hours from:
  - the municipality
  - or metropolitan area in which the business is located
- the driver's trip is for the purpose of transporting goods to, or from, a location beyond a radius of at least 160 kilometers from the business location,

The deductible portion of expenses will be increased to 60 per cent for expenses incurred on or after March 19, 2007 and before January 1, 2008, and to 65, 70 and 75 per cent for such expenditures incurred during 2008, 2009 and 2010, respectively.

The proportion of recaptured ITCs related to these expenses will decrease from 50 to 20 per cent between 2007 and 2011.

**PHASED RETIREMENT**

The budget proposes to amend the Income Tax Regulations to allow an employee to receive pension benefits from a defined benefit RPP and simultaneously accrue further benefits, subject to certain constraints.

**AGE LIMIT FOR MATURING RPPS AND RRSPS**

The budget proposes to increase, for the 2007 and subsequent calendar years, the conversion age for these plans to 71 years of age from 69 years of age.

In addition, the requirement that a specified minimum amount be withdrawn from a RRIF each year after the RRIF is established will be waived for 2007 and 2008 in the case of RRIF annuitants who turn 70 years of age in 2007, and for 2007 in the case of RRIF annuitants who turn 71 years of age in 2007.

**Business Income Tax Measures**

**ALIGNING CAPITAL COST ALLOWANCE RATES WITH USEFUL LIFE**

**Proposed Increases to CCA Rates**

Asset	Current Rate	New Rate
Buildings used for manufacturing or processing	4%	10%
Other non-residential buildings	4%	6%
Computer equipment	45%	55%

**COMPUTERS**

The budget proposes to increase the CCA rate for computer equipment, of a type that is currently described in Class 45, to 55 per cent.

The budget 2007 proposes that the computer software tax shelter property rules be extended to computer equipment that is eligible for the CCA rate of 55 per cent proposed in this budget.

**NON-RESIDENTIAL BUILDINGS**

The budget proposes that the CCA rate for buildings used for manufacturing or processing in Canada of goods for sale or lease be increased to 10 per cent, and that the CCA rate for other non-residential buildings be increased to 6 per cent. These rates will be provided through an additional allowance of 6 per cent for buildings used for manufacturing or processing and 2 per cent for non-residential buildings. The half-year rule, will apply to these additional allowances.

A building will be required to be placed into a separate class. The current treatment will apply (i.e. a CCA rate of 4 per cent). Further, at least 90 per cent of the building (measured by square footage) must be used for the designated purpose at the end of the taxation year. Buildings that do not qualify for the additional 6-per-cent allowance will be eligible for the additional 2-per-cent allowance if at least 90 per cent of the building is used for non-residential purposes at the end of the taxation year.

The additional allowances will be available for buildings acquired by a taxpayer on or after March 19, 2007 (including new buildings any portion of which is acquired by a taxpayer on or after March 19, 2007, where the building was under construction on March 19, 2007) that have neither been used, nor acquired for use, before March 19, 2007.

**TEMPORARY INCENTIVE FOR MANUFACTURING AND PROCESSING MACHINERY AND EQUIPMENT**

The budget proposes to temporarily increase the CCA rate for manufacturing and processing machinery and equipment that would otherwise be included in Class 43, to a 50-per-cent straight-line rate.

The increased rate will apply to eligible machinery and equipment acquired on or after March 19, 2007 and before 2009.

**CANADA-U.S. TAX TREATY: ELIMINATION OF WITHHOLDING TAX ON INTEREST**

For interest paid between unrelated (arm's length) persons, the elimination of withholding tax on interest will take effect the first calendar year that begins after both countries have completed the procedures required to put the treaty changes into their laws. For non-arm's length (related party) interest payments, the maximum withholding rate will be reduced in three stages, as follows:

Year in which Interest is Paid	Maximum Rate of Source-Country Withholding Tax on Non-Arm's Length Interest
Current	10%
First year following entry into force of treaty	7%
Second year following entry into force of treaty	4%
Third and subsequent years following entry into force of treaty	0%

## INTERNATIONAL TAX FAIRNESS INITIATIVE

The budget proposes to update and improve that system, by:

- restricting the deductibility of interest paid on debt used to invest in foreign affiliates (and better defining the active business income of a foreign affiliate);
- enhancing Canada's ability to collect tax information from other jurisdictions, through revised tax treaties and Tax Information Exchange Agreements (TIEAs) with non-treaty countries;
- modifying the exemption from Canadian tax for foreign-source active business income, which is currently limited to income earned in countries with which Canada has a tax treaty, to also include income earned in a non-treaty jurisdiction which has signed a tax information exchange agreement with Canada; and
- providing additional funding for auditing and enforcement by the Canada Revenue Agency (CRA).

### *Interest Deductibility for Foreign Active Business Income*

The budget will eliminate the deductibility of interest on debt incurred by corporations to finance foreign affiliates. This will be achieved through an adaptation of the existing "tracing" rules for interest.

The restriction on interest deductibility will apply to interest payable after 2007 on new debt—debt incurred on or after March 19, 2007. Existing non-arm's length debt will be subject to the restriction only for interest payable after 2008 or after the expiry of its current term, whichever is sooner. The restriction will apply to existing arm's length debt only for interest payable after 2009 or after the expiry of its current term, whichever is sooner.

## INVESTMENT TAX CREDIT FOR CHILD CARE SPACES

The budget proposes to introduce a tax credit to encourage businesses to create licensed child care spaces for the children of their employees and, potentially, for children in the surrounding community.

The measure will provide eligible taxpayers with a non-refundable investment tax credit equal to 25 per cent of eligible expenditures, to a maximum credit of \$10,000 per child care space created. Taxpayers eligible for this new credit will be those that carry on a business in Canada. Further, the provision of child care spaces must be ancillary to one or more businesses of the taxpayer that do not include the provision of such spaces.

Eligible expenditures will include the cost of depreciable property (other than specified property) and the amount of specified start-up costs, acquired or incurred solely for the purpose of the creation of the new child care space at a licensed child care facility.

Eligible depreciable property will include the cost or incremental cost of the building or portion of the building in which the child care facility is located, as well as the cost of furniture, appliances,

computer equipment, audio-visual equipment, playground structures and playground equipment. The specified start-up costs will include initial start-up costs such as landscaping costs for the children's playground, architect's fees, costs of initial regulatory inspections, initial licensing fees, building permit costs and costs to acquire children's educational material.

Eligible expenditures will not include specified property. Specified property will include motor vehicles and a property that is a residence. The credit will not be available for any of the ongoing or operating expenses of the child care facility such as supplies, wages, salaries, utilities, etc.

The credit will be recovered against the investment tax credit balance if, at any time within the five calendar years after the creation of the new child care space, the new child care space ceases to be available or property that was an eligible expenditure in respect of the child care space is sold, or leased, to another person or is converted to another use.

The amount to be recaptured will be 25 per cent of the lesser of

- the eligible expenditure that was taken into account in determining the credit, and
- the proceeds of disposition of the eligible property or, if the eligible property is disposed of to a related party, the fair market value of the property at the time of the disposition.

The tax credit will be available in respect of eligible expenditures that are incurred on or after March 19, 2007.

## REMITTANCE AND FILING THRESHOLDS

### **Increasing Corporate Income Tax Installment Threshold to \$3,000 and Reducing Installment Frequency for Small Businesses**

The budget proposes to triple, to \$3,000 from \$1,000, the threshold amount above which corporations are required to pay corporate income tax by installment. This threshold change will apply in respect of corporate taxation years that begin after 2007.

The budget proposes that, for small Canadian-controlled private corporations (CCPCs) that are required to pay tax installments, the frequency of installment payments be reduced from monthly to quarterly if (as adjusted to take into account groups of associated corporations):

- the taxable income of the corporation for either the current or previous year does not exceed \$400,000;
- the corporation qualified for the small business deduction for either the current or previous year;
- the taxable capital employed in Canada of the corporation does not exceed \$10 million in either the current or previous year; and
- the corporation has no compliance irregularities under the Income

Tax Act and Part IX of the Excise Tax Act during the preceding 12 months.

Quarterly installments will be available for eligible CCPCs in respect of corporate taxation years that begin after 2007.

### **INCREASING PERSONAL INCOME TAX INSTALLMENT THRESHOLD TO \$3,000**

The budget proposes to increase this installment threshold amount to \$3,000 (\$1,800 for individuals resident in Quebec).

These changes to the installment threshold amounts will apply to the 2008 and subsequent taxation years.

## **Sales and Excise Tax Measures**

### **48-HOUR TRAVELERS' EXEMPTION**

The budget proposes to increase the travelers' exemption to \$400 from \$200 for returning Canadian residents who are out of the country for 48 hours or more.

The new exemption will be effective in respect of travelers returning to Canada on or after March 20, 2007.

### **GREEN LEVY ON FUEL-INEFFICIENT VEHICLES**

The budget introduces a vehicle efficiency incentive (VEI) designed to promote the purchase of fuel-efficient vehicles in Canada.

The Green Levy will apply to new automobiles designed primarily to carry passengers, including station wagons, vans and sport utility vehicles, but not pickup trucks. This rating will be calculated on the basis of weighted average fuel consumption taking into account 55 per cent of city fuel consumption and 45 per cent of highway fuel consumption. Vehicles that have a weighted average fuel consumption of 13 or more liters per 100 kilometers will be subject to the levy at the following rates:

- at least 13 but less than 14 liters per 100 kilometers, \$1,000;
- at least 14 but less than 15 liters per 100 kilometers, \$2,000;
- at least 15 but less than 16 liters per 100 kilometers, \$3,000; and
- 16 or more liters per 100 kilometers, \$4,000.

### **INCREASING GST/HST ANNUAL FILING AND ANNUAL REMITTANCE THRESHOLDS**

The budget proposes to:

- triple the taxable supplies threshold, at or below which registrants can file a GST/HST return annually, to \$1,500,000 from \$500,000; and
- double the net tax threshold, below which annual GST/HST filers can make one tax remittance, to \$3,000 from \$1,500.

These measures will apply to fiscal years that begin after 2007.

The Green Levy will be based largely on existing provisions in the ETA pertaining to the heavy vehicle tax, thereby facilitating and simplifying administration of the levy and compliance by business. These provisions would include, for example, existing administrative provisions of the ETA such as those pertaining to filing requirements for returns, remittances, and penalties and interest, as well as more specific rules that deem certain importers and wholesalers of vehicles to be manufacturers of vehicles, and those vehicles to have been manufactured in Canada, thereby delaying payment of the levy until the vehicles are delivered to a dealer.

The Green Levy will apply to new vehicles delivered or imported after March 19, 2007.

## QUEBEC BUDGET

### INTRODUCTION

As part of the 2007-2008 Budget Speech, Finance Minister Michel Audet announced a number of tax measures for individuals and businesses that take effect as of midnight on February 20, 2007. "Success had already been achieved and this budget will lead to further progress in realizing Quebec's full potential," declared the Finance Minister.

The following is a summary of the measures he announced.

### MEASURES CONCERNING INDIVIDUALS

#### Personal income tax reduction

As of January 1, 2008, the brackets of the tax table will be modified as follows:

**Illustration of the thresholds and ceilings establishing the taxable income brackets of the tax table for the 2007 and 2008 taxation years**  
(in dollars)

Marginal rate	Taxable income bracket	2007	2008 before the budget	2008 after the budget
16%	Taxable income equal to or less than	29,290	29,875	32,000
20%	Taxable income over but not exceeding	29,290 58,595	29,875 59,765	32,000 64,000
24%	Taxable income over	58,595	59,765	64,000

As of January 1, 2009, the thresholds and ceilings establishing the taxable income brackets of the tax table will again be automatically indexed each year.

### IMPROVEMENT OF THE TAX SYSTEM PERTAINING TO EDUCATION

#### Introduction of a refundable tax credit to support education savings

Financial assistance, similar to the Canada education savings grant, will be paid through a refundable tax credit for the benefit of children who will be beneficiaries of an RESP. The application terms and conditions will be similar to the Canada education savings grant.

This refundable tax credit will be granted to a trust governed by an education savings plan, up to a maximum of \$3,600 per child, on a cumulative basis.

In general, the financial assistance for education savings provided by the tax credit will be equivalent to 10% of the first \$2,000 of annual contributions to an RESP for children under age 18.

In the case of middle-income families, the government's contribution to their

savings effort will consist of financial assistance equal to 15% of the first \$500 of annual contributions to an RESP, while this rate will be 20% for low-income families.

A refundable tax credit will correspond to 50% of all the amounts each of which is a Canada education savings grant.

The refundable tax credit to support education savings will apply as of the 2007 taxation year, regarding a Canada education savings grant that is attributable to a contribution paid to an RESP after February 20, 2007 and is paid for a calendar year after 2006 under the *Canada Education Savings Act*.

### CHANGES TO THE RULES OF THE TAX CREDIT FOR MINOR CHILDREN ENGAGED IN VOCATIONAL TRAINING OR POSTSECONDARY STUDIES

#### Changes relating to the child's income

The tax legislation will be amended to stipulate that, for the purposes of calculating this tax credit, the amount of recognized essential needs of \$1,860 per term for a minor child must be reduced by an amount equal to 80% of the child's income for the year, determined regardless of the scholarships, fellowships and awards he received in the course of the year and which give rise to a deduction in calculating his taxable income for the year.

Similarly, the tax legislation will be amended, as of the 2007 taxation year, for the purposes of calculating the tax credit for other dependants.

### REPLACEMENT OF THE TAX CREDIT FOR ADULT CHILDREN WHO ARE STUDENTS WITH A TRANSFER MECHANISM FOR THE RECOGNIZED PARENTAL CONTRIBUTION

The tax credit for adult children who are students will be replaced, as of the 2007 taxation year, by a transfer mechanism for the recognized parental contribution.

An eligible student, for a given taxation year, may transfer to a person who is his father or his mother, an amount relating to an unused portion of his basic tax credit for the year, provided such amount does not exceed the limit applicable to the transfer for the year.

The amount that an eligible student can transfer to his father or mother for a given taxation year must not

exceed the amount corresponding to the excess of 20% of either of the following amounts:

- where the eligible student has completed, in the year, at least two recognized terms, the amount of recognized essential needs applicable for the year under the basic tax credit;
- where the eligible student has completed, in the year, only one recognized term, the amount remaining, after subtracting an amount of \$1,860 for studies from the amount of recognized essential needs applicable for the year under the basic tax credit, over the tax otherwise payable by the student for the given year.

### ***Consequential amendments***

Various consequential amendments will be made to the tax legislation as concerns the following credits:

- tax credit for persons living alone;
- refundable Quebec sales tax (QST) credit;
- tax credits for other dependants;
- refundable tax credit for individuals living in a northern village;
- premium payable under the Quebec prescription drug insurance plan;
- refundable tax credit granting a work premium.

### **INCREASE IN THE AMOUNT FOR PERSONS LIVING ALONE**

The tax legislation will be amended to stipulate that, where an individual is entitled, for a given taxation year, to an amount for a person living alone and lived, during such year, with an eligible student – for the purposes of the transfer mechanism for the recognized parental contribution – who has completed, in the year, at least one recognized term, the individual may add an amount for a single-parent family of \$1,465 to the amount for a person living alone if, at the end of the year or on the date of his death, the individual had no child regarding whom he was entitled to a refundable tax credit for child assistance for the last month of the year.

### **TRANSFER TO THE PARENTS OR GRANDPARENTS OF THE UNUSED PORTION OF THE TAX CREDIT FOR TUITION FEES AND EXAMINATION FEES**

The portion of the tax credit for tuition fees and examination fees that a student does not use to reduce his tax payable may, as of the 2007 taxation year, be transferred to the parents or grandparents.

A student may transfer a portion of his tax credit for tuition fees and

examination fees to only one person, from among his father, mother, grandfather and grandmother within the meaning of the tax legislation. Where a student transfers to one of his ascendants an amount less than the maximum amount transferable, the non-transferred portion will be carried over for future use by the student.

The maximum amount transferable by a student for a given taxation year will be equal to the excess of an amount corresponding to 20% of eligible tuition fees and examination fees paid regarding the given year over the amount of tax otherwise payable for the year by the student calculated without taking non-refundable tax credits into account, apart from those that must be applied against the tax otherwise payable for the year by the student.

### **ENHANCEMENT OF THE TAX CREDIT FOR RETIREMENT INCOME**

An individual's maximum eligible retirement income used to determine the tax credit will be raised from \$1,000 to \$1,500 as of the 2007 taxation year.

### **SIMPLIFICATION AND ENHANCEMENT OF THE REFUNDABLE TAX CREDIT FOR CHILD CARE EXPENSES**

An individual's qualified child care expenses for a given taxation year will no longer be limited by the individual's earned income or that of the supporting person of the child, these notions having been eliminated. In addition, qualified child care expenses will no longer have to be split, for the purpose of calculating the tax credit, between the individual and his eligible spouse for the year.

Lastly, when the individual and his eligible spouse for the year are both entitled to the tax credit, they must split it between them in accordance with existing rules.

### **ENHANCEMENT OF THE REFUNDABLE TAX CREDIT FOR THE TREATMENT OF INFERTILITY**

The application of the refundable tax credit for the treatment of infertility will be changed to raise, from 30% to 50%, the rate applicable to the cost of a third or any additional attempt at *in vitro* fertilization.

For greater clarity with regard to the number of attempts, a new series is considered to begin after the birth of a living, viable child.

These changes will apply to embryo transfers carried out as of the day following the date on which the Quebec policy on *in vitro* fertilization comes into effect.

## EXTENSION OF AND IMPROVEMENT TO THE CAPITAL TAX CREDIT

The rate of the basic tax credit will be raised to 10% of the amount of eligible investments and the period during which investments may be made will be extended until December 31, 2012.

The assets covered by the rise in the rate of the capital tax credit to 10% are class 43 assets, acquired after February 20, 2007 and before January 1, 2013.

The rate of the capital tax credit raised to 15% for certain investments made in the forest sector is also extended until December 31, 2012.

## INCREASE IN THE TAX ON CAPITAL EXEMPTION THRESHOLD OF A FARMING CORPORATION OR A CORPORATION THAT CARRIES ON A FISHING BUSINESS

The amount of the deduction in the calculation of paid-up capital of a farming corporation or a corporation that carries on a fishing business will be raised from \$400,000 to \$5 million.

## Measures Concerning Business

This change will apply regarding a taxation year ending after February 20, 2007.

### MAJOR REDUCTION IN THE CORPORATE TAX RATE APPLICABLE TO PASSIVE INCOME

The tax rate applicable to passive income will be reduced to the tax rate applicable to active income ineligible for the small business deduction.

#### Tax rates applicable to passive income (in %)

	2007 until the budget	2007 after the budget	2008	2009
Tax rates applicable to passive income	16.25	9.9	11.4	11.9
Combined rates Federal and Provincial	52.04	45.69	46.07	46.57

The new rates will become effective after February 20, 2007.

### MEASURES CONCERNING SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT

A further amendment will be made to the tax legislation so that R&D expenditures incurred in a fiscal year that began after April 21, 2005 by a person or a partnership whose eligibility for the refundable tax credits for R&D was affected by the amendment announced in the April 21, 2005 Budget Speech can be included in a claim for a refundable tax credit for R&D, by whichever of the following two days is later, i.e. either August 31, 2008, or the last day of a period of twelve months following the filing deadline for the taxation year in which such expenditures were incurred.

### MEASURES CONCERNING CULTURE

#### Adjustments to the refundable tax credit for Quebec film and television production

- *Increase in the rate of the tax credit for French-language short and medium-length films*

The higher rate of the tax credit, namely 39.375%, will henceforth also apply to short and medium-length films of fiction, regarding labour expenditures relating to such a French-language production.

- *Eligibility of certain games, questionnaires and contests*

The Regulation respecting the recognition of a film as a Quebec film will be amended to stipulate that games, questionnaires and contests are productions that are eligible for recognition as a Quebec film if at least two thirds of its content consists of performances by performing artists.

These changes will apply in respect to an application for an advance ruling filed with the Société de développement des entreprises culturelles (SODEC) after February 20, 2007.

- *Government and non-government assistance*

The tax legislation will be amended to withdraw the exception relating to operating income as part of the application of the notion of government and non-government assistance.

This change will apply regarding an amount received or receivable after February 20, 2007.

### CONCORDANCE CHANGES REGARDING CERTAIN REFUNDABLE TAX CREDITS RELATING TO THE CULTURAL FIELD

Amendments will be made to stipulate that games, questionnaires and contests that are essentially of the nature of a variety show are productions that give rise to these tax credits.

### ADJUSTMENTS TO THE REFUNDABLE TAX CREDIT FOR THE PRODUCTION OF SHOWS AND FOR SOUND RECORDING PRODUCTION

In general, only shows that satisfy Quebec content criteria stipulated in a point scale give rise to the tax credit for the production of shows. Amendments will be made to this scale.

## Concerning Consumption Taxes

*Rise in the maximum amount of the refund of Quebec sales tax paid on a hybrid vehicle*

The QST system will be changed to raise the maximum amount of this refund to \$2,000.

This measure will apply to a new hybrid vehicle that has been purchased or for which a long-term lease has been taken out after February 20, 2007 and before January 1, 2009.

## Other Measures

### Free medication for the most disadvantaged

People age 65 or over who receive 94% or more of the guaranteed income supplement, and all employment assistance recipients who do not suffer from a severely limited capacity for employment, including in particular those with temporarily limited capacity for employment as well as holders of a claims booklet, will henceforth be able to acquire, free of charge, medication prescribed by their physician.

This measure will come into effect as of July 1, 2007.

*Our aim in this bulletin is to provide our clients with general comments on recent tax matters and on methods to improve the performance of their enterprises. The information highlighted is presented in broad general terms and cannot be applied without consideration of all circumstances. We will be pleased to elaborate on the material in particular cases. Additional copies of the **REPORTER** may be obtained by calling our office.*