

An illustration of several stylized figures walking away from the viewer on a light blue background with a faint grid pattern. The figures are in various colors (green, blue, purple, orange, pink) and are casting long, dark shadows. The overall style is modern and minimalist.

BUDGET 2023-2024

A COMMITTED QUÉBEC

**ADDITIONAL
INFORMATION**

March 2023

BUDGET 2023-2024

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Additional Information

Legal deposit – March 21, 2023
Bibliothèque et Archives nationales du Québec
ISBN 978-2-550-94109-5 (Print)
ISBN 978-2-550-94110-1 (PDF)

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1. MEASURES RELATING TO INDIVIDUALS

1.1 General reduction in personal income tax as of the 2023 taxation year

The government intends to continue protecting Quebecers' standard of living and encouraging their participation in the labour market by making a general reduction in personal income tax, which will help reduce the tax burden of Quebecers starting this year.

This general tax reduction will result in a decrease in the tax rates applicable to the first two taxable income brackets of the personal income tax table.

The tax legislation will therefore be amended so that, as of the 2023 taxation year:

- on the one hand, the tax rate for the first taxable income bracket, which does not exceed \$49 275 for the 2023 taxation year, will be reduced by one percentage point, from 15% to 14%;
- on the other hand, the tax rate for the second taxable income bracket, which is the bracket over \$49 275, but not exceeding \$98 540, will also be reduced by one percentage point, from 20% to 19%.

In order for individuals to benefit from this general tax reduction in the 2023 taxation year, adjustments will be made to the methods of calculating source deductions of income tax that must be made on wages and certain other amounts paid after June 30, 2023.

Moreover, individuals who are required to pay their income tax in instalments may adjust, in accordance with the usual rules, any instalment payment due after March 15, 2023, in order to take into account the general tax reduction applicable for the 2023 taxation year.

❑ Changes to personal tax credits

■ Decrease in the conversion rate

The tax legislation and regulations will also be amended so that, starting in the 2023 taxation year, the conversion rate applicable to the various amounts for calculating personal tax credits will be reduced from 15% to the new rate applicable to the first taxable income bracket of the personal income tax table, that is, 14%.

These amounts are:

- the basic amount;
- the amounts for persons living alone;
- the amount with respect to age;

- the amount for retirement income;
- the amount for a severe and prolonged impairment in mental or physical functions;
- the amount for children under 18 enrolled in vocational training or post-secondary studies;
- the amount for other dependants;
- the amounts for calculating the transferred amount representing the recognized parental contribution.

■ **Increase in the amounts granted for the purpose of calculating certain personal tax credits**

To take into account the composition of certain households, particularly families with children enrolled in vocational training or post-secondary studies, and ensure that they benefit from the new general tax reduction, the tax legislation will be amended to include an increase in the amounts granted for the purpose of calculating certain personal tax credits as of the 2023 taxation year, which are shown in the table below.

TABLE A.1

Change in the amounts granted for the purpose of calculating certain personal tax credits for the 2023 taxation year
(dollars)

	Conversion rate of 15% before budget		Conversion rate of 14% after budget	
	Amount granted	Tax reduction	Amount granted	Tax reduction
Amount for a child under 18 enrolled in vocational training or post-secondary studies (per term)	3 301 ⁽¹⁾	495 ^{(2),(3)}	3 537 ⁽¹⁾	495 ^{(2),(3)}
Amount for other dependants	4 810 ⁽¹⁾	722 ^{(2),(3)}	5 154 ⁽¹⁾	722 ^{(2),(3)}
Transferred amount representing the recognized parental contribution				
– Maximum amount	11 795	1 769 ^{(2),(3)}	12 638	1 769 ^{(2),(3)}
– Reduction when only one term has been completed	3 301	495 ⁽²⁾	3 537	495 ⁽²⁾

(1) In certain cases, the amount granted may be reduced on the basis of income.

(2) The result is rounded to the nearest dollar.

(3) The amount indicated is the maximum tax reduction.

As of the 2024 taxation year, each of the amounts granted for the purpose of calculating these tax credits will be automatically adjusted each year.

Like the parameters used in the personal income tax system, the index to be used with respect to these adjustments will correspond to the percentage change in the overall average Québec consumer price index without alcoholic beverages, tobacco products and recreational cannabis (QCPI-WATC) for the 12-month period ending on September 30 of the year preceding the one for which an amount is to be adjusted, compared to the average QCPI-WATC for the 12-month period ending on September 30 of the year preceding the one for which this amount is to be adjusted.

The index will be applied, for a particular year, to the previous year's value of the amount subject to indexation. For greater clarity, where the result obtained by applying the index is not a multiple of 1, it will be adjusted to the nearest multiple of 1 or, if it is equidistant from two multiples of 1, to the nearest higher multiple of 1.

■ **Clarification regarding the adjustment relating to a covered benefit determined by the Commission des normes, de l'équité, de la santé et de la sécurité du travail and the Société de l'assurance automobile du Québec**

The tax legislation will be amended to provide that, in regard to a covered benefit attributable to 2023, the adjustment respecting a covered benefit determined by the Commission des normes, de l'équité, de la santé et de la sécurité du travail and the Société de l'assurance automobile du Québec can be established by these bodies as if 15% were still the rate applicable to the first taxable income bracket and 20% were still the rate applicable to the second taxable income bracket.

□ **Reduction of the rate applicable to the calculation of the tax credit for career extension**

The tax system grants experienced workers a tax credit designed to eliminate the income tax that would otherwise have been payable on a portion of their eligible work income in excess of the first \$5 000. The tax credit is also reduced based on income for workers who were under 65 years of age in 2015 (individuals born after December 31, 1950). As such, for workers who were aged 65 and over in 2015, the tax credit may not be lower than the tax credit that would be determined in their respect if the maximum amount of eligible work income had remained the same as in 2015 and the tax credit were not reduced based on work income.

Since 2019, the age of eligibility for the tax credit is 60 and the eligible work income limit is \$10 000 for workers aged 60 to 64 and \$11 000 for workers aged 65 and over.

Briefly, an individual's eligible work income for a year is the remuneration included in calculating the individual's income for the year from an office or employment, the amount by which the individual's income for the year from any business the individual carries on either alone or as a partner actively engaged in the business exceeds the individual's losses for the year from such businesses, and the grants received by the individual in the year to carry on research or any similar work.

In all cases, the tax credit is calculated, before the possible income-based reduction, on the basis of a rate of 15% applied to the amount by which eligible work income exceeds \$5 000, up to the applicable limit.

The tax legislation and regulations will be amended so that, as of the 2023 taxation year, the tax credit will continue to be calculated on the basis of the rate applicable to the first taxable income bracket of the personal income tax table, such that the 15% rate will be replaced by a 14% rate.

❑ Reduction of the rate applicable to the calculation of the tax credit for volunteer firefighters and the tax credit for search and rescue volunteers

The tax system grants a non-refundable tax credit to individuals who provide eligible volunteer firefighter services to one or more fire safety services. It also grants a non-refundable tax credit to individuals who provide eligible services as search and rescue volunteers to an eligible search and rescue organization.

Each of these tax credits is calculated on the basis of an amount of \$3 000,¹ to which a rate of 15%, the rate applicable to the first taxable income bracket of the personal income tax table, is applied.

As of the 2023 taxation year, the tax legislation will be amended to replace the rate of 15% used to determine these tax credits by a rate of 14%, so that the tax credits continue to be calculated on the basis of the rate applicable to the first taxable income bracket of the personal income tax table.

❑ Reduction of the rate applicable to the calculation of the first-time home buyers' tax credit

Since the 2018 taxation year, the tax system grants a non-refundable tax credit that is primarily aimed at first-time buyers of a qualifying home. For such a home acquired on or after January 1, 2022, the tax credit is equal to \$1 500, which is the product obtained by multiplying \$10 000 by the rate applicable to the first taxable income bracket of the personal income tax table for the year (15%). The tax credit was previously \$750, which is the product obtained by multiplying \$5 000 by the rate applicable to the first taxable income bracket of the personal income tax table for the year (15%).

The tax legislation will be amended so that, as of the 2023 taxation year, the tax credit will continue to be calculated on the basis of the rate applicable to the first taxable income bracket of the personal income tax table, such that the 15% rate will be replaced by a 14% rate.

¹ See subsection 1.3. The 2023-2024 budget provides for an increase in the amount used to calculate these tax credits.

❑ **Clarifications concerning the application of source deductions of income tax**

As mentioned above, individuals will be able to benefit, in part, during the 2023 taxation year, from the general income tax reduction, which will result in adjustments to the source deductions of income tax made on wages and certain other amounts paid after June 30, 2023. To this end, Revenu Québec will make changes to the publications intended for employers and payers subject to source deductions of income tax.

Therefore, Revenu Québec will publish new source deduction tables for Québec income tax for the various pay periods reflecting the general income tax reduction for the 2023 taxation year, but these new tables will only be applicable as of July 1, 2023.

Consequently, the Minister of Revenue will publish a new notice in the *Gazette officielle du Québec*, in due course, indicating that the new tables will come into effect on July 1, 2023.

In addition, the Minister of Revenue will authorize the use of new mathematical formulas reflecting the general tax reduction for the 2023 taxation year, but these formulas will only be applicable as of July 1, 2023.

Since the new source deduction tables for Québec income tax and the new mathematical formulas for the 2023 taxation year will only apply as of July 1, 2023, it follows that the income tax reduction for the first part of the 2023 taxation year will generally be taken into account when filing the personal income tax return for the 2023 taxation year.

Moreover, in regard to certain types of payments, the tax regulations provide that the amount of income tax to be deducted at source corresponds to the amount obtained by multiplying the amount of the payment by a fixed rate. So that the rates applicable for the purpose of calculating source deductions of income tax take into account the reduction of the rate applicable to the first taxable income bracket of the personal income tax table, various amendments will be made to the existing tax regulations respecting payments made or remuneration paid after June 30, 2023.

■ **Single payments under a registered retirement income fund or a registered retirement savings plan**

Currently, a person who makes a single payment under, for example, a registered retirement income fund (RRIF), for the portion that exceeds the minimum amount, or a registered retirement savings plan (RRSP) must generally deduct income tax at source from the income of individuals equal to 15% of the payment.

The tax regulations will be amended to replace the rate of 15% for source deductions from such single payments by a rate of 14%.

■ Other single payments

A person who makes a single payment otherwise than under a RRIF or an RRSP must deduct income tax at source from the income of individuals equal to 15% of the payment, where it does not exceed \$5 000, and to 20% of the payment, where it exceeds \$5 000.

Briefly, single payments from which such a source deduction of income tax is made are retiring allowance payments, certain payments from a registered education savings plan, certain payments from a pension plan, a payment made as part of a deferred profit sharing plan, a payment made as a death benefit and an amount paid to an employee or a former employee pursuant to an order or judgment, where part of the amount paid relates to a previous year.

To bring these rates of source deduction in line with the upcoming changes to the tax table, the tax regulations will be amended to replace the rate of 15% for source deductions from single payments that do not exceed \$5 000 by a rate of 14%. Where single payments exceed \$5 000, the rate of source deduction of 20% will be replaced by a rate of 19%.

■ Payment under a government work-incentive project

A person who pays an amount as an earnings supplement under certain government work-incentive programs must deduct income tax at source from the income of individuals equal to 15% of the amount.

The tax regulations will be amended to replace the rate of 15% for source deductions from such an amount by a rate of 14%.

■ Payment made under a program to obtain information relating to tax non-compliance

A person who makes a payment under a federal or provincial program to obtain information relating to tax non-compliance must deduct income tax at source from the income of individuals equal to 20% of the amount.

The tax regulations will be amended to replace the rate of 20% for source deductions from such amounts by a rate of 19%.

■ Assistance payment made under a registered disability savings plan

A person who makes a disability assistance payment under a registered disability savings plan must deduct income tax at source from the income of individuals equal to 15% of the taxable portion of the payment.

The tax regulations will be amended to replace the rate of 15% for source deductions from the taxable portion of such assistance payments by a rate of 14%.

■ **Bonus and retroactive increases**

Where a payment of a bonus or a retroactive increase is made to an employee whose estimated annual pay, including the bonus or retroactive increase, does not exceed the threshold determined for the year, the employer must deduct 8% from the payment. However, where the employee's estimated annual pay exceeds the threshold determined for the year, the employer must determine the amount of the required income tax deduction according to the rules set out in the tax regulations.²

The tax regulations will be amended to provide that, where an employer pays, after June 30, 2023, a bonus or a retroactive increase to an employee whose estimated annual pay, including the bonus or retroactive increase, does not exceed the threshold determined for the year in accordance with the tax regulations, the rate of 8% for source deductions from such payments will be replaced by a rate of 7%.

■ **Remuneration of self-employed fishers**

Individuals who fish otherwise than under an employment contract may elect to have income tax deducted at source from their remuneration. Currently, where a self-employed fisher makes such an election, any person who pays the fisher remuneration must deduct income tax at source from the income of individuals equal to 15% of the remuneration.

The tax regulations will be amended to replace the rate of 15% for source deductions from remuneration paid to individuals who made or make this election by a rate of 14%.

■ **Special tax applicable on accumulated investment income from a registered education savings plan**

A person who makes an accumulated income payment under a registered education savings plan (RESP) must generally deduct income tax at source equal to 8% of such payment on account of the special tax relating to a RESP.

The federal tax rate on such a payment applicable to residents of other provinces and territories is 20%, while the rate applicable to Québec residents is 12%. As a result, the special tax deduction rate of 8% in Québec on the accumulated investment income of a RESP is maintained so that the combined (federal and Québec) tax rate of 20% continues to apply to Québec residents.

² The threshold for determining the method by which the deduction is to be made with respect to payments made after December 31, 2022, and before January 1, 2024, has been set at \$17 183.

❑ **Consequential amendments**

■ **Presumption of residence**

For the purposes of the tax system, individuals who are not resident in Québec at the end of a particular taxation year are nonetheless deemed, in certain circumstances, to have been resident in Québec throughout the year.

Currently, the tax legislation states that the child of an individual who is deemed to be resident in Québec because of his or her duties is also deemed to be resident in Québec, provided the child is the individual's dependant and the child's income for the year does not exceed a certain threshold.

For the purposes of this presumption, the limit on the child's income for a taxation year subsequent to the 2022 taxation year will be established on the basis of \$12 638, which will be automatically indexed each year as of January 1, 2024.³

■ **Refundable tax credit for childcare expenses**

Childcare expenses paid in respect of an eligible child with a view to, in particular, enabling an individual or the individual's spouse to work, pursue studies or actively seek employment may be converted into a refundable tax credit at a rate established on the basis of family income.

For the purposes of this tax credit, the definition of "eligible child" will be amended, as of the 2023 taxation year, to state that an eligible child of an individual for a taxation year means a child of the individual or the individual's spouse, or a child who is a dependant of the individual or the individual's spouse and whose income for the year does not exceed \$12 638, if, in any case, at any time during the year, the child is under 16 years of age or is dependent on the individual or the individual's spouse and has a mental or physical infirmity.

For greater clarity, the amount of \$12 638 will be automatically indexed each year as of January 1, 2024.⁴

❑ **Alternative minimum tax**

The alternative minimum tax is designed to strike a balance between, on the one hand, the objectives of fairness and funding of public expenses and, on the other hand, the objectives of economic development, by ensuring that taxpayers who benefit from tax preferences pay a minimum amount of tax each year. In the absence of alternative minimum tax, it would in fact be possible for certain taxpayers with high incomes to considerably reduce or eliminate their income tax payable by taking advantage of tax preferences that were introduced into the tax system to, among other things, achieve certain economic development objectives.

³ This amount will be automatically indexed each year according to the same rules as those applicable to the indexation of the amounts used to calculate personal tax credits.

⁴ See previous note.

Briefly, alternative minimum tax requires taxable income to be recalculated. Adjusted taxable income, minus the basic exemption of \$40 000, is subject to a flat tax rate of 15%.

So that the flat tax rate for the purpose of calculating alternative minimum tax continues to be the rate applicable to the first taxable income bracket of the personal income tax table, the tax legislation will be amended to replace the rate of 15% by a rate of 14% as of the 2023 taxation year.

Moreover, in the April 7, 2022 budget,⁵ the Government of Canada committed to examining a new minimum tax regime to ensure that all wealthy Canadians pay their fair share of tax. This intention was reiterated in the November 3, 2022 economic statement.⁶ The Ministère des Finances du Québec is following the work currently being done by the Department of Finance Canada in this regard.

1.2 Enhancement of the housing component of the refundable solidarity tax credit

In order to financially support low- and middle-income households, the government introduced the refundable solidarity tax credit in the 2010-2011 budget.⁷

This tax credit is made up of the following three components:

- the Québec sales tax component, which aims to mitigate the financial impact of this tax;
- the housing component, which allows for the consideration of costs related to the occupation of an eligible dwelling;
- the component for individuals living in northern villages, which aims to compensate for the fact that the cost of living in one of Québec's 14 northern villages is higher than elsewhere in Québec.

The amount of the solidarity tax credit is determined for a payment period that begins on July 1 of a calendar year and ends on June 30 of the following calendar year. The base year for a payment period is the taxation year that ended on December 31 of the calendar year that precedes the beginning of this payment period.

⁵ DEPARTMENT OF FINANCE CANADA, *Budget 2022 – A Plan to Grow Our Economy and Make Life More Affordable*, chapter 9, [Online], April 7, 2022, [<https://www.budget.canada.ca/2022/home-accueil-en.html>].

⁶ *Id.*, *Fall Economic Statement 2022*, chapter 3, p. 40, [Online], November 3, 2022, [<https://www.budget.canada.ca/fes-eea/2022/report-rapport/FES-EEA-2022-en.pdf>].

⁷ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2010-2011 – Additional Information on the Budgetary Measures*, March 30, 2010, pp. A.8-A.24.

The amounts paid under the housing component of the solidarity tax credit vary according to household composition. For the payment periods of July 2022 to June 2023 and July 2023 to June 2024, the amounts for the housing component are shown in the following table.

TABLE A.2

Amounts paid under the housing component
(dollars)

	From July 1, 2022 to June 30, 2023	From July 1, 2023 to June 30, 2024 ⁽¹⁾
Person living alone	599	638
Couple without children	727	774
Single-parent family with one child	727	774
Couple with two children	983	1 046
Amount for each dependant child	128	136

(1) The amounts provided for the period beginning July 1, 2023 are indexed at a rate of 6.44%.

As a result of the inflationary environment that prevailed throughout 2022, many owners of income properties have been forced to increase their housing costs significantly. Combined with the rising cost of energy, these increases are having a significant impact on low- and middle-income households.

In order to help these households cope with the increase in their rent, the indexation normally provided for in the housing component of the solidarity tax credit will be doubled and applied as of the next payment period, which begins on July 1, 2023.

Accordingly, the amounts of the housing component of the solidarity tax credit applicable for the period from July 2022 to June 2023 will be indexed at a rate of 12.88% (instead of 6.44%) for the payment period beginning July 1, 2023.

The following table shows the increase in the amounts of the housing component of the solidarity tax credit.

TABLE A.3

**Enhancement of the amounts paid under the housing component
for the payment period beginning on July 1, 2023**
(dollars)

	Amounts for the payment period beginning on July 1, 2022 ⁽¹⁾	Enhancement			Enhanced amounts for the payment period beginning on July 1, 2023 ⁽²⁾
		Indexation of 6.44%	Enhancement in Budget 2023-2024	Total	
Person living alone	599	39	39	78	677
Couple without children	727	47	47	94	821
Single-parent family with one child	727	47	47	94	821
Couple with two children	983	63	63	126	1 109

(1) Amounts applicable from July 1, 2022 to June 30, 2023.

(2) Amounts applicable from July 1, 2023 to June 30, 2024.

This enhancement will be integrated into the parameters of the personal income tax system applicable as of July 1, 2023. Accordingly, the amounts resulting from this specific indexation for the housing component will be those considered for the purposes of calculating the indexation of this component of the solidarity tax credit applicable to the payment period beginning July 1, 2024.

1.3 Enhancement of the non-refundable tax credits for volunteer firefighters and search and rescue volunteers

The Québec tax system provides various types of tax assistance to individuals who provide services as volunteer firefighters or search and rescue volunteers. Since 2011 and 2014 respectively, these aids include a non-refundable tax credit for volunteer firefighters⁸ and a non-refundable tax credit for search and rescue volunteers.⁹

Each of these tax credits corresponds, for a year, to the amount equal to the product obtained by multiplying \$3 000 by the rate for the first taxable income bracket of the personal income tax table applicable for the year.

⁸ MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin* 2011-3, July 6, 2011, p. 3.

⁹ *Id.*, *Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget*, June 4, 2014, p. 82.

For the purposes of these tax credits, a volunteer firefighter means an individual who, on a voluntary basis or for minimal annual compensation, responds to alarms from a fire safety service or a 9-1-1 emergency centre, issued in particular by radio, telephone, siren or fire alarm.¹⁰

A search and rescue volunteer is an individual who, as a volunteer with an eligible search and rescue organization,¹¹ is on call and responds to a search and rescue or related emergency.

To be eligible for either of these non-refundable tax credits, an individual must provide at least 200 hours of service in the year, each of which represents one hour of eligible volunteer firefighting services or eligible volunteer search and rescue services, as the case may be.

An individual who provides both eligible volunteer firefighting services and eligible volunteer search and rescue services, and who provides at least 200 hours of such eligible services in a taxation year, may claim either the non-refundable tax credit for volunteer firefighters or the non-refundable tax credit for search and rescue volunteers, but not both.¹²

In addition, to be eligible for either of these non-refundable tax credits, the individual must file with the Minister, at the request of and in the manner determined by the Minister, a written certificate from the director or an authorized representative of each fire safety service or from the team president, or other individual who fulfils a similar role, of each eligible search and rescue organization to which the individual provided eligible volunteer firefighting services or eligible search and rescue volunteer services, attesting to the number of hours of such services performed in the year by the individual for that fire safety service or eligible search and rescue organization.

To facilitate the recruitment of volunteers in a context of labour shortage, particularly outside major urban centres, the non-refundable tax credit for volunteer firefighters and the non-refundable tax credit for search and rescue volunteers will be increased as of the 2023 taxation year.

¹⁰ However, an individual is not considered to provide services as a volunteer firefighter when the individual replaces permanent firefighters for short periods, is regularly or periodically on duty in a fire station or is remunerated for periods of on-call duty in the territory.

¹¹ An eligible search and rescue organization means an organization that is a member of the Search and Rescue Volunteer Association of Canada, the Civil Air Search and Rescue Association or the Canadian Coast Guard Auxiliary, or whose status as a search and rescue organization is recognized by a provincial, municipal, or public authority.

¹² *Taxation Act*, s. 752.0.10.0.7, par. c. To claim the tax credit for search and rescue volunteers for a year, an individual must not have claimed the tax credit for volunteer firefighters for the year.

Accordingly, the \$3 000 amount used to determine these tax credits will be increased to \$5 000 so that each of these tax credits will correspond, as of the 2023 taxation year, to the amount equal to the product obtained by multiplying \$5 000 by the rate of the first taxable income bracket of the personal income tax table applicable for the year.¹³

In addition, to ensure that the increase in these non-refundable tax credits takes inflationary factors into consideration, the tax legislation will be amended to provide that the \$5 000 amount will be automatically indexed each year, as of the 2024 taxation year.

Like the parameters used in the personal income tax system, the index to be used for the adjustment of the amount applicable to the two tax credits will correspond to the percentage change in the overall Québec average consumer price index without alcoholic beverages, tobacco products and recreational cannabis (QCPI-WATC) for the 12-month period ending on September 30 of the year preceding the one for which an amount is to be adjusted, compared to the average QCPI-WATC for the 12-month period ending on September 30 of the year preceding the one for which this amount is to be adjusted.

This index will be applied, for a particular year, to the previous year's value of the amounts subject to indexation. For greater clarity, where the results obtained by applying the index are not multiples of 1, they will be adjusted to the nearest multiple of 1 or, if they are equidistant from two multiples of 1, to the nearest higher multiple of 1.

¹³ See subsection 1.1 for the applicable taxation rate beginning in the 2023 taxation year.

2. MEASURES RELATING TO BUSINESSES

2.1 Introduction of a new tax holiday relating to the carrying out of a large investment project

As part of the November 20, 2012 budget speech,¹⁴ the tax holiday relating to the carrying out of a large investment project (hereinafter referred to as the “former TH-LIP”) was introduced.

Briefly, a corporation that carries out a large investment project in Québec may, under certain conditions set by the former TH-LIP, benefit from a tax holiday in respect of the income tax derived from its eligible activities relating to the project and a holiday from the employer contribution to the Health Services Fund (HSF) regarding the portion of wages paid to its employees that is attributable to the time they devote to such activities.

Similarly, a partnership that carries out a large investment project in Québec may, under certain conditions, benefit from a holiday from the HSF employer contribution regarding the portion of wages paid to its employees that is attributable to the time they devote to eligible activities relating to the project. A corporation that is a member of the partnership may benefit from a tax holiday in respect of its share of the income from eligible activities of the partnership relating to the project.

In order to benefit from the former TH-LIP, a corporation or partnership must obtain an initial qualification certificate issued by the Minister of Finance. An application must be made no later than December 31, 2024.

The former TH-LIP is granted for a period of 15 years starting on the date of the tax-free period for the project specified by the Minister of Finance on the first annual certificate issued for this project. The value of the former TH-LIP cannot exceed the corporation’s or partnership’s tax assistance limit for the project, which is 15% of the total qualified capital investments.

This tax holiday is intended for corporations and partnerships that carry out an investment project related to the manufacturing, data processing, hosting and related services, and wholesale trade or warehousing and storage sectors. The investment project may also relate to the development of a digital platform or digital transformation activities.

In order to encourage the development of a wider range of activity sectors, to further promote investment projects carried out in regions where the economic vitality index is lower, while adjusting certain parameters of the measure to simplify its application, the government has decided to introduce a new tax holiday, namely the new tax holiday relating to the carrying out of a large investment project (hereinafter “new tax holiday”).

¹⁴ MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Budget 2013-2014 – Budget Plan*, November 20, 2012, pp. H.23-H.32.

Moreover, considering the introduction of this new tax holiday, the former TH-LIP will be abolished as of the day of the budget speech and, as a result, no new application for an initial qualification certificate will be accepted for the purposes of the former TH-LIP. However, the abolition of the former TH-LIP will not affect the eligibility of corporations and partnerships that already hold a qualification certificate or that have already applied for the issuance of an initial qualification certificate under the former TH-LIP.

2.1.1 Implementation of the new tax holiday relating to the carrying out of a large investment project

A corporation that, after the day of the budget speech, carries out a large investment project in Québec may, under certain conditions, benefit from an income tax holiday and from a holiday from the employer contribution to the HSF.

Similarly, a partnership that, after the day of the budget speech, carries out a large investment project in Québec may, under certain conditions, benefit from a holiday from the employer contribution to the HSF. A corporation that is a member of the partnership may benefit from the tax holiday regarding the tax in respect of its share of income from the partnership.

The new tax holiday will be granted in respect of a large investment project without the need to keep separate books for the activities arising from the project. The new tax holiday will instead be defined according to new parameters, particularly in terms of the maximum annual amount of tax assistance applicable.

This new tax holiday will have a 10-year duration. It will be calculated by applying a rate of 15%, 20% or 25% to the cumulative total eligible expenditures related to the project. This rate will be determined according to the economic vitality index of the territory where the large investment project will be carried out, subject to certain rules applicable in the event that a large investment project is carried out in more than one territory. In addition, the cumulative total eligible expenditures relating to the project may not exceed \$1 billion.

To qualify for the new tax holiday, a project must not be carried out in an excluded sector of activity and, in order to claim it, the corporation or partnership must not carry on activities in an excluded sector of activity, subject to certain applicable rules.

In addition, the project will have to satisfy a requirement to meet the \$100-million investment threshold before the expiration of a 48-month investment period, beginning on the date specified on the initial qualification certificate issued in respect of the project, as well as a requirement to maintain that threshold throughout the tax-free period applicable to the investment project.

❑ Terms and conditions for obtaining the new tax holiday

To be eligible for the new tax holiday, a corporation will have to obtain an initial qualification certificate as well as annual certificates issued by the Minister of Finance, who will administer the sectoral parameters of this measure.¹⁵ The initial certificate application must be submitted to the Minister of Finance no later than December 31, 2029. However, the initial qualification certificate may not be requested if significant expenditures for the realization of the large investment project have been incurred at the time the application is made.

Significant expenditures for the investment project have been incurred if the total amount of capital expenditures incurred in respect of the investment project exceeds \$1 million at the time of the application for the initial qualification certificate.

Moreover, a project that began to be carried out on the date of the budget speech will not qualify as a large investment project. If the corporation has not incurred significant expenditures in respect of an investment project prior to the date of the budget speech, it will not be considered to have begun the investment project prior to the date of the budget speech.¹⁶

Once the application has been reviewed, an initial qualification certificate will be issued to the corporation by the Minister of Finance if he is of the view that the investment project presented to him is likely to be recognized as a large investment project and that the activities that arise from it will be carried out in Québec.

Moreover, the new tax holiday will become available only if the investment project is indeed recognized by the Minister of Finance as a large investment project.

¹⁵ The criteria relating to the issuance of an initial qualification certificate and annual certificates will be found in the *Act respecting the sectoral parameters of certain fiscal measures*.

¹⁶ A corporation or a partnership will not be able to obtain an initial qualification certificate under the former TH-LIP and the new tax holiday for the same investment project.

In summary, an application for an initial qualification certificate relating to an investment project cannot be accepted by the Minister of Finance for the purposes of the new tax holiday if an initial qualification certificate has been issued in respect of the investment project for the purposes of the former TH-LIP.

Similarly, an application for an initial qualification certificate in respect of an investment project will not be accepted by the Minister of Finance for the purposes of the new tax holiday if an application for an initial qualification certificate has been filed and is under analysis by the Minister of Finance in respect of the investment project for the purposes of the former TH-LIP. In this case, a corporation may withdraw its application under the former TH-LIP in order to submit the application under the new tax holiday, which will be subject to compliance with the conditions set out in the new tax holiday. The corporation may also wait for the result of the analysis of its application and, if it is refused, file an application for an initial qualification certificate under the new tax holiday, which will be subject to compliance with the conditions set out in this new tax holiday.

Accordingly, if an initial qualification certificate has been issued for the project, the corporation will have to apply for an annual certificate to the Minister of Finance for each taxation year included, in whole or in part, in its tax-free period. The annual certificate will certify that the corporation is carrying out, in the taxation year, the activities relating to the large investment project regarding which an initial qualification certificate was issued and will confirm that the project is recognized for the taxation year as a large investment project and that the corporation has shown, to the Minister's satisfaction, that the activities arising from it are carried out in Québec.

In addition, the first annual certificate to be issued to the corporation will indicate the starting date of the corporation's tax-free period, the total investment expenditures attributable to the carrying out of the investment project for the corporation for the purpose of meeting the minimum investment threshold requirement, and the allocation of those expenditures based on where the property will be acquired to be used mainly.

A partnership that carries out a large investment project, after the day of the budget speech,¹⁷ will have to obtain an initial qualification certificate and annual certificates. The annual certificates will be applied for regarding the fiscal years of the partnership that fall, in whole or in part, within its tax-free period.

However, the Minister of Finance may only issue an annual certificate for a large investment project, for a taxation year, if the corporation that carries it out submits an application to that effect before the expiry of the fifteenth month following the end of such taxation year.¹⁸

Similarly, the Minister of Finance may issue an annual certificate for a large investment project, for a fiscal year, only if the partnership that carries it out submits an application to that effect before the expiry of the fifteenth month following the end of such fiscal year.

Moreover, the Minister of Finance may, on an exceptional basis and for what are deemed reasonable grounds, issue an annual certificate for a large investment project, for a taxation year or a fiscal year, as the case may be, if the corporation or the partnership that carries it out submits an application to that effect after the expiry of the fifteenth month but no later than the expiry of the eighteenth month following the end of such taxation year or such fiscal year.

❑ Large investment project

An investment project may qualify as a large investment project, for the purposes of the new tax holiday, if it satisfies all conditions mentioned below.

¹⁷ If the partnership has not incurred significant expenditures in respect of an investment project prior to the date of the budget speech, it will not be considered to have begun the investment project prior to the date of the budget speech.

¹⁸ The terms and conditions relating to significant expenditures apply to partnerships, with the necessary adaptations.

■ Activity sectors

The project must involve activities that are not activities carried out in one or several excluded activity sector. The following sectors will constitute excluded activity sectors for the application of the new tax holiday:

TABLE A.4

Excluded activity sectors

NAICS	Activity sectors
21	Mining, quarrying, and oil and gas extraction, except for critical and strategic minerals ^{(1),(2)}
22	Utilities
23	Construction
3122	Tobacco manufacturing
3241	Petroleum and coal product manufacturing
3313	Alumina and aluminum production and processing ⁽³⁾
4133	Cigarette and tobacco product merchant wholesalers
457	Gasoline stations and fuel vendors
486	Pipeline transportation
5121	Motion picture and video industries
516	Broadcasting and content providers
518	Computing infrastructure providers, data processing, web hosting, and related services
52	Finance and insurance
53	Real estate and rental and leasing
5418	Advertising, public relations, and related services
551113	Holding companies
61	Educational services
62	Health care and social assistance
71121	Spectator sports
7132	Gambling industries
72	Accommodation and food services
813	Religious, grant-making, civic, and professional and similar organizations
91	Public administration

(1) Critical minerals will mean the following minerals: antimony, bismuth, cadmium, cesium, copper, tin, gallium, indium, tellurium and zinc. Strategic minerals will mean the following minerals: cobalt, rare earth elements, platinum group elements, graphite (natural), lithium, magnesium, nickel, niobium, scandium, tantalum, titanium and vanadium.

(2) Moreover, the income tax holiday will apply only in respect of tax payable under the provisions of the *Taxation Act*. The holiday will not reduce amounts payable under the provisions of the *Mining Tax Act*.

(3) The government is continuing its analysis of this activity sector. The status of the latter may be reassessed once these analyses are completed.

Moreover, activities that are reasonably attributable to the hosting, production or sharing of content encouraging violence, sexism, racism or any other form of discrimination, supporting illegal activities or comprising explicit sex scenes or graphic representations of such scenes will be deemed to be activities carried out in an excluded activity sector.¹⁹

■ Investment period

A corporation, or partnership, as the case may be, will be able to choose the date on which the 48-month investment period applicable to its investment project will begin.

The date chosen must be indicated in the application for the initial qualification certificate for that project. This date must fall within the 12-month period following the submission of the application for the initial qualification certificate.

The date of the beginning of the investment period for an investment project will correspond to the date specified by the Minister of Finance on the initial qualification certificate issued in respect of the investment project, which will be determined considering the date selected by the corporation or partnership, as the case may be.

If a corporation or partnership does not select a date for the beginning of the investment period applicable to its investment project, the date for the investment period will be the date specified by the Minister of Finance.

The investment period will terminate at the end of the 48-month period following the date indicated on the initial qualification certificate.

■ Investment threshold

The total investment expenditures attributable to the carrying out of the investment project in Québec must reach \$100 million by the end of the investment period.

¹⁹ The activities carried out to develop a digital platform that hosts, produces or allows the exchange, or is intended to host, produce or allow the exchange, of content encouraging violence, sexism, racism or any other form of discrimination, supporting illegal activity, comprising explicit sex scenes or offering gambling or lottery games will be considered as activities that are reasonably attributable to the hosting, production or exchange of such content. These activities will thus be deemed to be activities carried on in an excluded sector of activity.

■ **Total investment expenditures attributable to the carrying out of the investment project**

The total investment expenditures attributable to the carrying out of the investment project includes all the capital expenditures incurred, during the investment period applicable to the investment project for the acquisition of new property required for the carrying out of the investment project.

Accordingly, for the purpose of determining the total investment expenditures attributable to the carrying out of the investment project, only capital expenditures incurred in respect of new property acquired by the corporation or partnership that are included in a class of depreciable property listed in Schedule B of the *Regulation respecting the Taxation Act* will be eligible. In addition, the property must not have been, prior to its acquisition, used for any purpose or acquired to be used or leased for any purpose.

In addition, except in the case of involuntary loss, material breakdown or destruction by fire, theft or water, the property must be used mainly in Québec and in the course of activities related to the carrying out of the investment project and for a minimum period of 730 consecutive days after the day on which that use begins, by the corporation or partnership, as the case may be. Also, the property must not have been, prior to its acquisition, used for any purpose or acquired to be used or leased for any purpose.

For greater clarity, the total investment expenditures attributable to the carrying out of the investment project will not include expenditures related to the purchase or use of land nor those relating to the acquisition of a business already being carried on in Québec.

Also, the total investment expenditures attributable to the carrying out of the investment project will not include expenditures incurred with a person with whom the corporation or a member of the partnership does not deal at arm's length and the financing costs, including borrowing costs, that a corporation or a partnership capitalizes to the capital cost of a property. This total also will not include labour expenditures²⁰ that a corporation or partnership capitalizes to the capital cost of a property, other than expenditures related to the installation of a property. In addition, the property must not have been acquired as a replacement for an asset whose acquisition cost was considered in calculating the total investment expenditures attributable to the carrying out of the investment project.

²⁰ Labour expenditure means salaries or wages incurred in respect of employees of the corporation or partnership carrying out the investment project and consideration incurred for services rendered to the corporation or partnership in connection with the investment project, whether or not the individuals, corporations or partnerships rendering such services are not dealing at arm's length with the corporation or a member corporation of the partnership.

■ Independent auditor's report

A corporation or partnership that holds an initial qualification certificate in respect of an investment project will be required to include, with the application for the first annual certification in respect of the project, an independent auditor's report certifying, among other things, the total investment expenditures attributable to the carrying out of the investment project, the breakdown of those expenditures by location of where the property is acquired to be used mainly, the total government or non-government assistance, attributable to an investment expenditure, that the corporation or partnership has received, is entitled to receive or can reasonably expect to receive at the time of application, and any other information that may be required by the Minister of Finance for the administration and enforcement of this measure.²¹

■ Maintaining the investment threshold

The Minister of Finance may issue an annual certificate for an investment project for a taxation year or a fiscal year, as the case may be, only if, at any time in the year, the total investment expenditure attributable to the carrying out of the investment project is at least \$100 million.

□ Determination of the new tax holiday

■ Value of the tax assistance

The tax legislation will be amended so that the value of the tax assistance of a qualified corporation in respect of a large investment project, for a taxation year, will correspond to the total of the tax assistance attributable to the investment project received by the corporation for income tax purposes, for the taxation year, and the tax assistance received by the corporation for employer contribution to the HSF, for all or part of a calendar year included in the taxation year.

In the event that the large investment project is carried out by a qualified partnership, the value of the partnership's tax assistance with respect to the project for a fiscal year will correspond to the total of the tax assistance attributable to the project on account of its employer contribution to the HSF, for all or part of a calendar year in the fiscal year, and the portion of the maximum annual amount of tax assistance with respect to the project allocated by the partnership to its members, for the fiscal year.

²¹ For greater clarity, an independent auditor's report in no way limits the exercise of the audit powers of the Minister of Finance and Revenu Québec with respect to the administration and enforcement of this measure.

■ Deduction in calculating a qualified corporation's taxable income

The tax legislation will be amended so that a qualified corporation, for a taxation year, may deduct, in calculating its taxable income, for such taxation year, an amount, in respect of the new tax holiday, not exceeding its adjusted taxable income for the taxation year.

Where only a portion of a taxation year of the qualified corporation is included in its tax-free period applicable to a large investment project, the amount that the corporation may deduct in calculating its taxable income under the new tax holiday, for that taxation year, may not exceed the product obtained by multiplying its adjusted taxable income, for that taxation year, by the proportion that the number of days of the tax-free period included in the taxation year bears to the total number of days in the taxation year.

The total of the value of tax assistance for the deduction in calculating taxable income and the value of tax assistance relating to the holiday from employer contribution to the HSF of a qualified corporation in respect of a large investment project, for a taxation year included in whole or in part in its tax-free period applicable to the investment project, may not, however, exceed the corporation's maximum annual amount of tax assistance for that taxation year, in respect of the investment project.

Moreover, taking into account the possibility that a qualified corporation may benefit from a reduced tax rate²² on the portion of its taxable income giving rise to the small business deduction and a higher rate (11.5%) on the portion of its taxable income that does not give rise to such deduction, the value of the tax assistance attributable to the amount deducted by the qualified corporation in calculating its taxable income, for the taxation year, will be calculated by applying to the amount of the deduction in the calculation of taxable income under the new tax holiday, for such taxation year, the tax rate or rates that would be applied had the amount constituted additional taxable income of the corporation for such taxation year.

■ Holiday from the employer contribution to the HSF

A qualified corporation, for a taxation year, will be entitled to a holiday regarding its employer contribution to the HSF in respect of wages paid or deemed to be paid to one or more of its employees, for a pay period included in the corporation's tax-free period applicable to a large investment project.

The total of the value of tax assistance for the deduction in calculating taxable income and the value of tax assistance relating to the holiday from employer contribution to the HSF of a qualified corporation in respect of a large investment project, for a taxation year included in whole or in part in its tax-free period applicable to the investment project, may not, however, exceed the corporation's maximum annual amount of tax assistance for that taxation year, in respect of the investment project.

²² For 2023, a corporation's reduced tax rate may be as high as 3.2%.

■ **Deduction in calculating a member of a qualified partnership's taxable income**

The tax legislation will be amended so that a corporation, other than an excluded corporation, that is a member of an eligible partnership, which, in the fiscal year of the partnership that ends in the corporation's taxation year, carries out a large investment project, may deduct, for that taxation year, an amount not exceeding the corporation's share, at the end of the fiscal year, of the partnership's adjusted income for the fiscal year.

The total of the value of tax assistance with respect to the amount deducted in calculating the taxable income of a member corporation of a partnership with respect to a large investment project, for a taxation year of the corporation in which a fiscal year of the partnership ends, shall not, however, exceed the amount allocated to the corporation by the partnership for such fiscal year ended in the taxation year as the maximum annual amount of tax assistance for the fiscal year.

The rules previously provided for a qualified corporation with respect to the deduction in calculating its taxable income will apply to a member of an eligible partnership with the necessary modifications.

■ **Holiday from the employer contribution to the HSF**

An eligible partnership, for a fiscal year, may receive a holiday regarding its employer contribution to the HSF, which will apply regarding the wages paid or deemed to be paid to one or more of its employees, for a pay period included in the tax-free period applicable to a large investment project.

The value of the tax assistance in respect of the holiday regarding employer contribution to the HSF in respect of a large investment project, for a fiscal year that falls in whole or in part within the partnership's tax-free period applicable to the large investment project, may not, however, exceed the maximum annual amount of tax assistance of the eligible partnership in respect of the large investment project for that fiscal year.

■ **Qualified corporation**

The tax legislation will be amended so that a qualified corporation means, for a taxation year, a corporation, other than an excluded corporation for the year, that, in the year, carries on a business in Québec and has an establishment there and that holds an annual certificate issued by the Minister of Finance for the purposes of the new tax holiday, for that year.

■ **Excluded corporation**

An excluded corporation, for a taxation year, means a corporation that, for the year, is one of the following corporations:

- a tax-exempt corporation;
- a Crown corporation or a wholly controlled subsidiary of such a corporation;
- a corporation that carries on activities in an excluded activity sector mentioned previously at any time during the year.

As such, a corporation will be deemed not to be carrying on activities in an excluded activity sector, for a taxation year, if the proportion that its gross income, for that taxation year, from activities other than activities carried on in an excluded activity sector out of its total gross income, for the taxation year, is at least 75%.

■ **Qualified partnership**

A qualified partnership means, for a fiscal year, a partnership, other than an excluded partnership for the fiscal year, that, in that fiscal year, carries on a business in Québec and has an establishment there and that holds an annual certificate issued by the Minister of Finance for the purposes of the new tax holiday, for that fiscal year.

■ **Excluded partnership**

An excluded partnership, for a fiscal year, means a partnership that carries on activities in an excluded activity sector mentioned previously at any time during the fiscal year.

As such, a partnership will be deemed not to be carrying on activities in an excluded activity sector, for a fiscal year, if the proportion that its gross income, for that fiscal year, from activities other than activities carried on in an excluded activity sector out of its total gross income, for the fiscal year, is at least 75%.

■ **Tax-free period**

A corporation or partnership, as the case may be, will be able to choose the date on which the tax-free period applicable to its large investment project will begin.

The date chosen must be indicated in the application for the first annual certificate for the project.

The date selected must also fall within the period beginning on the day on which the total investment expenditures attributable to the carrying out of the investment project first reach the investment expenditure threshold applicable to the project and ending on the last day of the 48-month investment period for the project.

The start date of the tax-free period applicable to a large investment project will correspond to the date specified by the Minister of Finance on the first annual certificate issued in respect of the large investment project, which will be determined considering the election made by the corporation or partnership, as the case may be, in this regard.

If a corporation or partnership does not select a start date for the tax-free period applicable to its large investment project, the tax-free period will be the last day of the investment period for the large investment project.

For greater clarity, the tax-free period applicable to a large investment project will be the 10-year period beginning on the start date of the tax-free period set out in the first annual certificate issued in respect of the project.

■ **Adjusted taxable income**

A qualified corporation's adjusted taxable income for a taxation year will be its taxable income for the year, excluding the portion of its taxable income attributable to its income from property and the excess of its taxable capital gains over its allowable capital losses, for that year.

In addition, for the purpose of calculating the amount of the qualified corporation's deduction, taxable income will be calculated assuming that the corporation has claimed the maximum amount of its discretionary deductions.

■ **Discretionary deductions**

The amount a qualified corporation may deduct in calculating its income for a taxation year will be equal to its taxable income for the year calculated as if the corporation had claimed all of the discretionary deductions, including the capital cost allowance.

To this end, for the period between the date on which the corporation applied for the initial qualification certificate and the date on which its tax-free period for the large investment project begins, the taxpayer will be deemed not to have claimed the capital cost allowance.

As a result, the undepreciated capital cost of all property acquired from the time of the application for the initial qualification certificate until the corporation begins its tax-free period will not, for the purposes of calculating the deduction available to a qualified corporation in calculating its taxable income, be reduced by the capital cost allowance that the corporation might otherwise have received, during that period, in calculating its income.

In addition, the undepreciated capital cost of all property acquired prior to the time the application for the initial qualification certificate is made will not, for the purposes of calculating the deduction available to a corporation in calculating its taxable income, be reduced by the capital cost allowance that the corporation may otherwise have received, from the time the application for the initial qualification certificate is made until the corporation begins its tax-free period, in calculating its income.

Moreover, the deduction available to a qualified corporation in calculating its taxable income will be reduced by non-capital losses of previous taxation years, provided that such losses have not already been considered for this purpose for a previous taxation year.

As a result, the deduction available to a qualified corporation in calculating its taxable income will actually correspond to its taxable income for a taxation year included in its tax-free period applicable to the investment project, without affecting the tax elections the corporation may otherwise make in the course of filing its tax return.

The rules provided above for a qualified corporation with respect to the calculation of its adjusted taxable income will apply, with the necessary adaptations, to determine the adjusted income of the qualified partnership.

■ **Eligible salaries and wages**

A qualified corporation or qualified partnership, other than an excluded employer, that carries out a large investment project will be eligible for a holiday from employer contribution to the HSF for its tax-free period. This holiday from employer contribution will apply in respect of wages paid or deemed to be paid to an employee by the qualified corporation or the qualified partnership, as the case may be, for a pay period within its tax-free period.

However, wages paid or deemed to be paid by the corporation or partnership to an employee whose duties consist in building, expanding or modernizing the site where the large investment project is to be carried out will not qualify for the holiday from employer contribution to the HSF.

In addition, the amount of salary paid or deemed to be paid to an employee that will be exempt from the employer contribution to the HSF will not include the portion of such amount attributable to director's fees, bonuses, performance bonus, commissions or taxable benefits paid to such employee.

■ **Excluded employer**

An excluded employer will mean, for a given period, a corporation that is tax-exempt for such period.

■ Maximum annual amount of tax assistance

The tax legislation will be amended so that the maximum annual amount of tax assistance of a qualified corporation or a qualified partnership,²³ for a given taxation year or a given fiscal year, as the case may be, included in whole or in part in its tax-free period, will be the amount calculated according to the following formula:²⁴

$$(A \times \frac{B}{3\,652}) - C$$

In this formula:

- A is the total tax assistance;
- B is the number of days in the period beginning on the first day of the tax-free period and ending on the last day of the taxation year or fiscal year or, if earlier, the last day of the tax-free period;
- C is:
 - for a corporation, the value of the tax assistance, on account of income tax and employer contribution to the HSF, received by the corporation for a taxation year ended before the particular taxation year due to the new holiday,
 - for a partnership, the value of the tax assistance received by the partnership in respect of the employer's contributions to the HSF for a fiscal year before the particular fiscal year and each amount allocated by the partnership to its members under a sharing agreement, for the particular fiscal year and a fiscal year before the particular fiscal year because of the new holiday.

²³ In summary, if a corporation or partnership does not qualify as a qualified corporation or qualified partnership for a taxation year or fiscal period, the formula will allow the amount that it could not benefit from, for that year or fiscal period, to be included in the maximum annual amount of tax assistance for a subsequent taxation year or fiscal period, as the case may be, if the corporation or partnership qualifies as a qualified corporation or qualified partnership for that subsequent taxation year or fiscal period.

²⁴ For greater clarity, and in general, if a corporation or partnership, for a taxation year or fiscal year, is unable to benefit from its full maximum annual amount of tax assistance for such year or fiscal year, then the formula will allow the unused balance of such maximum annual amount of tax assistance for such year or fiscal year to be carried forward to a subsequent year or fiscal year, as the case may be. However, if the corporation or partnership has an unused balance at the end of the tax-free period, that balance will be lost.

■ Total tax assistance

The tax legislation will be amended so that the total tax assistance of a corporation, for a taxation year, is equal to the product obtained by multiplying the cumulative total eligible expenditures of the corporation at the end of the taxation year by the rate of the new tax holiday applicable to it.

In addition, the total tax assistance of a partnership, for a fiscal year, will be equal to the product obtained by multiplying the cumulative total eligible expenditures of the partnership at the end of the fiscal year by the rate of the new tax holiday applicable to it.

■ Cumulative total eligible expenditures

The tax legislation will be amended so that the cumulative total of eligible expenditures of a corporation or a partnership at the end of a given taxation year or fiscal year, as the case may be, will be the lesser of \$1 billion or the amount calculated according to the following formula:

$$(A + B) - (C + D)$$

In this formula:

- A is the total eligible expenditures;
- B is the total of each amount of government assistance or non-government assistance that has reduced the corporation's cumulative total eligible expenditures and which is reimbursed by the end of the particular taxation year or fiscal year;
- C is the greater of the fair market value and the consideration received from the alienation of an eligible property before the end of the 730-day period following the end of the investment period, except in the case of involuntary loss, material breakdown or destruction by fire, theft or water;
- D is the total of each amount of government assistance or non-government assistance that the corporation or partnership has received, is entitled to receive, or may reasonably expect to receive that is attributable to an eligible expenditure at the time of the determination of the total eligible expenditures.

■ Total eligible expenditures

The total eligible expenditures of a corporation or a partnership at a given time will be equal to all expenditures incurred by the corporation or the partnership, before that time, for the acquisition of an eligible property, during its investment period, that are included in the capital cost of the property for a taxation year ended, or a fiscal year ended, at that time or before that time, and that are paid at that time.

Moreover, for the purposes of the new tax holiday, certain expenditures incurred for the acquisition of an eligible property will not constitute eligible expenditures. These include expenditures incurred with a person with whom the corporation or a member of the partnership does not deal at arm's length and financing costs, including borrowing costs, that a corporation or partnership includes in the capital cost of a property. The total will also not include labour expenditures²⁵ that a taxpayer capitalizes in the capital cost of a property, other than expenditures related to the installation of a property.

■ **Eligible property**

Eligible property of a corporation, for a taxation year, or of a partnership, for a fiscal year, means a new property acquired by the corporation or by the partnership that is included in a class listed in Schedule B of the *Regulation respecting the Taxation Act*.

Moreover, the property must not have been, prior to its acquisition, used for any purpose or acquired to be used or leased for any purpose.

In addition, the property must be acquired for use mainly in Québec, in carrying out the large investment project.

Also, the property must not have been acquired as a replacement for an asset for which an expenditure is included in the total eligible expenditures.

■ **Rate of the new tax holiday**

The rate of the new tax holiday that a corporation or a partnership may benefit from will be determined on the date of the beginning of the tax-free period based on the territory²⁶ where the large investment project is carried out and will be equal to the following applicable rate:

- if the large investment project is carried out in a territory with low economic vitality: 25%;
- if the large investment project is carried out in a territory with intermediate economic vitality: 20%;
- if the large investment project is carried out in a territory with high economic vitality: 15%.

²⁵ See note 20.

²⁶ As indicated on the first annual certificate to be issued to the corporation or partnership.

An investment project will be considered to be carried out in a territory with a given level of economic vitality if all or substantially all of the expenditures included in the total eligible expenditures incurred with respect to eligible property are acquired to be used mainly in one or more territories with that level of economic vitality.²⁷

If all or substantially all of an investment project is not carried out in one or more territories of the same economic vitality level, it will be considered to be carried out in a territory with intermediate economic vitality if all or substantially all of the expenditures included in the total eligible expenditures²⁸ is incurred with respect to eligible property acquired to be used mainly in one or more given territories that are territories with low economic vitality or territories with intermediate economic vitality.

Otherwise, the project will be deemed to have been carried out in a territory with high economic vitality.

■ Territories with low economic vitality

A territory with low economic vitality refers to the regional county municipalities and urban agglomerations listed in the table below.

TABLE A.5

Territories with low economic vitality

Antoine-Labelle	Le Golfe-du-Saint-Laurent
Argenteuil	Le Rocher-Percé
Avignon	Les Basques
Bonaventure	Les Etchemins
Charlevoix-Est	Les Sources
Le Domaine-du-Roy	Maria-Chapdelaine
La Haute-Côte-Nord	Matawinie
La Haute-Gaspésie	Maskinongé
La Matanie	Mékinac
La Matapédia	Papineau
La Mitis	Pontiac
La Tuque	Shawinigan
La Vallée-de-la-Gatineau	Témiscouata

²⁷ Where a corporation or partnership has elected to begin its tax-free period before the end of the investment period, it will have to consider, for the purposes of determining the tax holiday rate, eligible expenditures that have not yet been incurred in respect of eligible property but that will likely be incurred by the end of the investment period.

²⁸ See previous note.

■ Territories with intermediate economic vitality

A territory with intermediate economic vitality consists of an area located in Québec that is neither a territory with high economic vitality nor a territory with low economic vitality.

■ Territories with high economic vitality

A territory with high economic vitality consists of the municipalities whose territories constitute the Communauté métropolitaine de Montréal²⁹ and the Communauté métropolitaine de Québec.³⁰

■ Sharing agreement

Where a large investment project is carried out by an eligible partnership, the partnership's maximum annual amount of tax assistance, relating to such investment project, may be covered by a sharing agreement between the partnership and its members for each fiscal year of the partnership included in its tax-free period.

Where an eligible partnership allocates to its members all or part of its maximum annual amount of tax assistance relating to a large investment project, for a fiscal year, the maximum annual amount of tax assistance or part thereof thus allocated must be distributed among the members on the basis of their share, for the fiscal year, of the partnership's income.

A corporation will have to enclose with its tax return for the taxation year in which the fiscal year of the partnership of which it is a member ends, a copy of such agreement for such fiscal year. A partnership will have to enclose with the Summary of Source Deductions and Employer Contributions a copy of the agreements covering all or part of the calendar year for which a holiday from the employer contribution to the HSF is claimed.

Lacking a sharing agreement for a fiscal year of an eligible partnership, the amount attributed as its maximum annual amount of tax assistance to a member corporation of the partnership, for such fiscal year, will be equal to zero.

□ Transfer of a project

The Minister of Finance may agree to the transfer of the activities arising from the carrying out of a large investment project for which a first annual certificate has been issued and carried out by a corporation or a partnership (hereinafter called the "transferor") to another corporation or partnership (hereinafter called the "transferee"). The transferee must then undertake to continue, in Québec, carrying out all or almost all of such project, as it was presented to the Minister and accepted by him.

²⁹ Act respecting the Communauté métropolitaine de Montréal (CQLR, c. C-37.01), s. 2 and Schedule I.

³⁰ Act respecting the Communauté métropolitaine de Québec (CQLR, c. C-37.02), s. 2 and Schedule A.

The transferee may then continue to receive the new tax holiday for the balance of the ten-year tax-free period determined on the date of the transfer. To that end, the transferor shall transfer to the transferee an amount not exceeding the unused portion of the total tax assistance at the time of the transfer. To do so, the transferor and the transferee must enter into an agreement for the transfer of the unused portion of the total tax assistance relating to the project. A copy of the approval of the transfer by the Minister of Finance must be sent to Revenu Québec together with a copy of such agreement on the transfer of the unused portion of the total tax assistance relating to the project.

After such agreement is entered into, the transferor's unused portion of the total tax assistance relating to the transferred project will correspond to the excess of such unused portion, immediately prior to the agreement being entered into, over the unused portion of the total tax assistance covered by the agreement.

Similarly, after such agreement is entered into, the transferee's unused portion of the total tax assistance will correspond to the unused portion of the total tax assistance covered by the agreement.

Moreover, the transferee will have to take into account, in calculating its deduction from its taxable income, the non-capital losses of the transferor from previous taxation years calculated according to the rules indicated above in the "Adjusted taxable income" section. Accordingly, in order to obtain the consent of the Minister of Finance regarding the transfer of the project, the transferor will have to disclose the relevant information in this regard to the transferee.

❑ Revocation or change to the initial qualification certificate or an annual certificate

The Minister of Finance may revoke or change an initial or annual certificate in accordance with what is stipulated in the *Act respecting the sectoral parameters of certain fiscal measures*.

Where an initial or annual certificate is thus revoked or changed by the Minister of Finance, the amount of the tax benefits will be recovered by means of a special tax.³¹

❑ Other application details

To benefit from the portion of the new tax holiday that applies to income tax, for a taxation year, a corporation must enclose with its income tax return, for the year, a copy of the annual certificate issued to it, for its taxation year, for the large investment project it is carrying out, or of the annual certificate issued to the partnership of which it is a member, for its fiscal year ending in the taxation year, for the large investment project the latter is carrying out. In addition, the corporation must attach to the copy of the first annual certificate a copy of the independent auditor's report.

³¹ This special tax is stipulated in Part VI.3.1 of the *Taxation Act*.

To benefit, for a calendar year, from the holiday from employer contribution to the HSF, a corporation or partnership that carries out a large investment project must enclose with the Summary of Source Deductions and Employer Contributions, for each taxation year or fiscal year that falls in whole or in part within the calendar year, a copy of the annual certificates issued to it for the calendar year in question. In addition, the partnership must attach to the copy of the first annual certificate a copy of the independent auditor's report.

Moreover, a corporation or a member of a partnership that has been issued an initial qualification certificate for the purposes of the new tax holiday by the Minister of Finance will not be able to benefit from the tax credit for the development of e-business³² or the tax credit for multimedia titles³³ for the taxation years included, in whole or in part, in the period beginning on the date of issuance of the initial qualification certificate and ending at the end of the tax-free period relating to the investment project.

In addition, a corporation or a member of a partnership that has been issued an initial qualification certificate for the purposes of the new tax holiday by the Minister of Finance will not be able to benefit from the refundable tax credit for the production of biofuels in Québec or the refundable tax credit for the production of pyrolysis oil in Québec³⁴ for the taxation years included, in whole or in part, in the period beginning on the date of issuance of the initial qualification certificate and ending at the end of the tax-free period relating to the investment project.

In addition, a corporation or a member of a partnership that has been issued an initial qualification certificate for the purposes of the new tax holiday by the Minister of Finance will not be eligible for the tax credit relating to investment and innovation³⁵ in respect of property used, or acquired for use, in the course of an investment project.

□ Application date

The new tax holiday will apply in respect of an investment project for which an application for an initial qualification certificate is made after the day of the budget speech.

³² This measure is provided for in Title III.4 of Book V of Part I and Division II.6.0.1.9 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act*.

³³ This measure is provided for in Divisions II.6.0.1.2 and II.6.0.1.3 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act*.

³⁴ These measures are respectively provided for in Division II.6.0.9.3 of Chapter III.1 of Title III of Book IX of Part I and in Division II.6.0.9.2 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act*.

³⁵ This measure is provided for in Division II.6.14.2.3 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act*.

2.1.2 Elimination of the former tax holiday relating to the carrying out of a large investment project

The elimination of the former tax holiday relating to the carrying out of a large investment project will be effective as of the day of the budget speech.

Accordingly, no new application for the issuance of an initial qualification certificate relating to a large investment project will be accepted by the Minister of Finance for the application of the former TH-LIP. However, the elimination of the TH-LIP will not affect the eligibility for such tax holiday of corporations that already have an initial qualification certificate for an investment project, or of partnerships and member corporations thereof, that already have such a certificate or that have already applied for the issuance of an initial qualification certificate.³⁶ Such corporations or partnerships may continue to benefit from this tax holiday until it expires, according to the rules that currently apply.

□ Introduction of an alternative calculation method

A corporation or partnership that holds an initial qualification certificate for a large investment project will be able to make an irrevocable election to benefit from a new alternative calculation method for the tax holiday. If such an election is made, this method of calculation will replace the method of calculation currently set out in the former TH-LIP. This method will eliminate the requirement to keep separate books and will allow the tax holiday to be taken in respect of all the activities of the corporation or partnership for taxation years and fiscal periods beginning after the date on which the election is filed with the Minister of Finance.

The corporation or partnership, as the case may be, will be required to file the election with the Minister of Finance on or before the later of the date of application for the first annual certification under the large investment project or March 31, 2024. The annual certificate issued to the corporation or partnership following the filing of the election will reflect the election.

The alternative calculation method will be implemented to calculate the amount that a corporation or a member of a partnership may deduct in respect of a large investment project of the corporation or partnership in calculating its taxable income, as well as the portion of salaries paid or deemed to be paid by the corporation or partnership, as the case may be, that will be eligible for a holiday from employer contribution to the HSF.

Where a corporation or partnership has elected to use the alternative method in respect of a large investment project that it carries out, the tax holiday relating to that investment project must be determined, over the remaining part of the tax-free period, according to the terms and conditions of the alternative method.

³⁶ The Minister of Finance may, if he agrees to the transfer, issue an initial qualification certificate to a corporation or a partnership that acquires all or almost all of the portion carried on in Québec of the business in the course of which are carried out activities arising from the carrying out of a large investment project regarding which the ceding corporation or partnership already holds an initial qualification certificate and a valid annual certificate.

■ Maximum annual amount of tax assistance

As a result of the above, the tax legislation will be amended so that a corporation or partnership that holds an initial qualification certificate relating to a large investment project and that elects the alternative calculation method will be entitled to a maximum annual amount of tax assistance, for a taxation year or a fiscal year included in whole or in part in the tax-free period, corresponding to the amount calculated according to the following formula:³⁷

$$(D \times \frac{E}{F}) - G$$

In this formula:

- D is the unused portion of the tax assistance limit from the former TH-LIP,³⁸ for the corporation, partnership, or member corporation of the partnership;
- E is the number of days in the period beginning on the first day of the taxation year or fiscal period that begins after the date of filing the election and ending on the last day of the particular taxation year or fiscal period;
- F is the number of unused days in the remaining period of the tax-free period from the former TH-LIP, for the corporation or partnership, up to a maximum of 5 478;
- G is the value of the tax assistance attributable to the unused portion of the tax assistance limit, from the former TH-LIP,³⁹ received by the corporation, partnership, or member of a partnership for a taxation year ended before the particular taxation year or for a fiscal year ended before the particular fiscal year because of the alternative method of calculating the former TH-LIP.

³⁷ For greater clarity and in general, if a corporation or partnership, for a taxation year or fiscal period, elects to benefit from the alternative calculation method, the formula will allow the unused portion of the tax assistance limit to be allocated over the period beginning on the first day of the taxation year or fiscal period that begins after the date of filing of the election until the end of the remaining period of the tax-free period.

In addition, in general, if the corporation or partnership for a taxation year or fiscal year is unable to benefit from its full maximum annual amount of tax assistance for such year or fiscal year, then the formula will allow the unused balance of that maximum annual amount of tax assistance for such year or fiscal year to be carried forward to a subsequent year or fiscal year. However, if the corporation or partnership has an unused balance at the end of the tax-free period, that balance will be lost.

³⁸ Calculated as of the day before the first day of the taxation year or fiscal year that begins after the date of filing the election.

³⁹ See previous note.

❑ Application date

These changes to the former TH-LIP relating to the alternative calculation method will apply as of the day of the budget speech.

2.2 Changes to the refundable tax credit for Québec film or television production

In summary, the refundable tax credit for Québec film or television production applies to the labour expenditure⁴⁰ incurred by a corporation in respect of a property that is a Québec film.⁴¹

However, the qualified labour expenditure of a corporation in respect of a Québec film production, on which the tax credit is calculated, may not exceed 50% of the film's production costs incurred by the corporation and attributable to the film production.

The base rate of this tax credit is generally 32%,⁴² but can reach 40%⁴³ for the following productions:

- French-language feature-length, medium-length and short fiction films;
- French-language feature-length, medium-length and short animated films;
- French-language one-off documentaries;
- French-language productions intended for minors;
- giant-screen films.

In addition, these base rates may be increased by the following bonuses: the increase for computer-aided special effects and animation, the increase for regional productions and the enhancement determined by reference to financial assistance.

In order to better support Québec film and television productions and to better reflect the reality of the industry, the *Act respecting the sectoral parameters of certain fiscal measures* (hereinafter the "Sectoral Act") will be amended to recognize the contribution of certain market intermediaries in the online distribution of certain productions and to ease the current rules to facilitate the acquisition of stock footage.

⁴⁰ A corporation's labour expenditure includes the aggregate of salaries and wages incurred by the corporation to the extent that they relate to services rendered in relation to the stages of a Québec film production, from the script stage to the post-production stage.

⁴¹ A Québec film production means a motion picture film, a video tape or a set of episodes or broadcasts that are part of a series in respect of which the Société de développement des entreprises culturelles (SODEC) has issued a certificate.

⁴² In the case of a production adapted from a foreign format, the base rate is 28%.

⁴³ In the case of a production adapted from a foreign format, it can reach 36% for these productions.

❑ **Recognition of online broadcast undertakings made through aggregators**

To be recognized as a Québec film production, a film must meet certain exploitation requirements.⁴⁴

These requirements include broadcasting, public presentation, distribution, dubbing and close-captioning. In addition, they vary depending on the film's primary market, that is, the television market, theatrical market or online broadcasting market.

For a film whose primary market is the online broadcasting market, in the case of an eligible online video service by a provider other than a television broadcaster, there must be an undertaking by a holder of a general distributor's licence to exploit the film in Québec and an undertaking by the provider to that holder to make the film accessible in Québec through the eligible online video service.⁴⁵

The recent growth of online video services has led to the emergence of new business models, particularly with the addition of aggregators.

In general, the services offered by an aggregator consist of preparing files for distribution on online video services, including reformatting, encoding and uploading files.

As such, an aggregator sometimes acts as an intermediary between a distributor and an online video service provider.

However, the current legislation does not address the situation of aggregators.

In order to adapt the tax credit to the reality of online broadcasting and to support the growth of the Québec film and television industry, amendments will be made to the Sectoral Act so that the undertaking of the aggregator to make the film available in Québec will be included in the exploitation requirements.

Specifically, the Sectoral Act will be amended to provide that, for a film whose primary market is the online broadcasting market, there must be, in the case of an eligible online video service by a provider other than a broadcaster, an undertaking by a holder of a general distributor's licence to exploit the film in Québec and an undertaking by the provider or the aggregator to that holder to make the film accessible in Québec through the eligible online video service.

⁴⁴ *Act respecting the sectoral parameters of certain fiscal measures*, Schedule H, s. 3.10.

⁴⁵ *Ibid.*, Schedule H, s. 3.10, 1st par., subs. 2.1, subpar. b.

These undertakings must be filed with the application for a favourable advance ruling in respect of the film. A confirmation from the eligible online video service provider or aggregator that the film is available in Québec must also be included with the application for a qualification certificate in respect of the film.

❑ Easing in the treatment of costs related to stock footage

To be recognized as a Québec film production, a film must meet certain production cost requirements.⁴⁶

In short, these requirements demand that a minimum of 75% of the amount that is the total production costs⁴⁷ be paid to individuals who were resident in Québec, or to corporations or partnerships that had an establishment in Québec and, in the case of a film with a running length of 75 minutes or longer that is not an inter-provincial co-production, that a minimum of 75% of the amount that is the total post-production costs be paid for services provided in Québec.

However, it can be difficult for films in the documentary category to comply with these requirements. It is common for this type of production to require costs for stock footage that is only available outside of Québec. As a result, a film may not be recognized as a Québec film production if the proportion of costs related to stock footage outside Québec is too high.

In order to support the production of documentaries in Québec, changes will be made to the Sectoral Act. Specifically, the Act will be amended so that costs related to stock footage will be excluded from production cost requirements, both for a film that is not an inter-provincial co-production and for a film that is an interprovincial co-production.

❑ Application date

These changes will apply in respect of a film or television production for which an application for an advance ruling, or an application for a qualification certificate if no advance ruling was previously filed for that production, is filed with the SODEC after the day of the budget speech.

2.3 Enhancement of the refundable tax credit for book publishing

The refundable tax credit for book publishing is intended to support Québec publishers so that they can develop foreign markets for Québec works, carry out large-scale publishing projects and develop the translation market.

⁴⁶ *Ibid.*, Schedule H, s. 3.7, 2nd par., subs. 3^o (film that is an inter-provincial co-production) and Schedule H, s. 3.13 (film that is not an inter-provincial co-production).

⁴⁷ Excluding certain expenses.

In short, this tax credit is calculated on the basis of qualified labour expenditure⁴⁸ and corresponds to the total of the following amounts:

- an amount equal to 35% of the qualified labour expenditure attributable to preparation costs and digital version publishing costs regarding an eligible work or eligible group of works;
- an amount equal to 27% of the qualified labour expenditure attributable to printing and reprinting costs regarding an eligible work or eligible group of works.

However, a corporation's qualified labour expenditure is limited to 50% of the preparation costs and digital version publishing costs and 33 ⅓% of the printing and reprinting costs of the eligible work or eligible group of works.

Moreover, regarding an eligible work or each work that is part of an eligible group of works, the tax credit cannot exceed \$437 500.

Given the highly competitive market in which Québec publishers operate and the significant increase in their operating costs, the refundable tax credit for book publishing will be enhanced to take these realities into account.

❑ Increase in the limit on qualified labour expenditure attributable to preparation costs and digital version publishing costs

Over the past few years, the labour expenditure attributable to preparation costs and digital version publishing costs has increased to the point where the 50% used to calculate the limit on this qualified labour expenditure no longer reflects the actual proportion of such labour expenditures over the total preparation costs and digital editing costs.

As a result, the tax legislation will be amended so that the 50% limit on qualified labour expenditure attributable to preparation costs and digital version publishing costs will be raised to 65%.

❑ Increase in the tax credit rate for printing and reprinting costs

The book publishing industry is not only facing increased labour costs for printing and reprinting, but also a significant increase in paper supply costs.

⁴⁸ Labour expenditure includes salaries or wages, remuneration and a portion of consideration incurred by the corporation to the extent that they relate to the preparation or printing of an eligible work or group of eligible works.

Therefore, in order to acknowledge the increase in these costs, the tax legislation will be amended so that the rate of the refundable tax credit for book publishing will be increased from 27% to 35% with respect to qualified labour expenditure attributable to printing and reprinting costs.

❑ Application date

These amendments will apply in respect of an eligible work or an eligible group of works for which an application for an advance ruling, or an application for a qualification certificate if no advance ruling has been filed in respect of that work or group of works, is filed with the Société de développement des entreprises culturelles (SODEC) after the day of the budget speech.

2.4 Enhancement of the refundable tax credit for the production of multimedia events or environments presented outside Québec

The refundable tax credit for the production of multimedia events or environments presented outside Québec, the rate of which is 35%, applies to certain labour expenditures of a corporation regarding a property that is a qualified production.

The qualified labour expenditure of a corporation giving rise to this tax credit may not exceed 50% of the production costs incurred by the corporation and directly attributable to the production of the qualified production.

A qualified production is a multimedia event presented in a place of amusement situated outside Québec or a multimedia environment for presentation outside Québec for which a favourable advance ruling or a qualification certificate has been given or issued by Société de développement des entreprises culturelles (SODEC).

In order to improve the competitiveness of Québec multimedia event or environment production corporations, the tax legislation will be amended to broaden the base for labour expenditures for the purposes of this tax credit and to increase the limit on qualified labour expenditures.

❑ Broadening the base for labour expenditure

In summary, the expression “labour expenditure” of a corporation, in respect of a property that is a qualified production, for the application of the refundable tax credit for the production of multimedia events or environments presented outside Québec, means, subject to certain reservations, all salaries or wages and remuneration incurred by the corporation to the extent that they are attributable to services rendered in Québec as part of the production of the property.

These services must also be rendered by an eligible employee or an eligible individual in relation to one of the following nine functions: lighting designer, designer, environment designer, graphic designer, content and project manager for audiovisual and sound, programmer, writer, scriptwriter and scenographer.⁴⁹

However, the refundable tax credit for the production of multimedia events or environments presented outside Québec is currently the only Québec tax credit in the cultural sector that limits the base of labour expenditures to certain functions.

In order to support the production of multimedia events or environments presented outside Québec, the tax legislation will be amended to broaden the base of labour expenditures for services rendered in Québec by an eligible employee or an eligible individual.

Specifically, the definitions of “eligible employee” and “eligible individual” will be amended to remove the requirement that services be rendered in respect of these nine functions.

☐ Increase in the limit on qualified labour expenditure

Corporations producing multimedia events or environments presented outside Québec are facing strong competition in foreign markets as well as a significant increase in their labour expenses. As a result, the 50% limit on production costs directly attributable to the production of the qualified production applicable to qualified labour expenditure no longer adequately reflects the portion of these production costs attributable to the labour expenditure in respect of that qualified production.

In order to provide greater support to corporations producing multimedia events or environments and to better reflect the reality of the industry, the tax legislation will be amended so that this percentage of 50% used to calculate the limit on qualified labour expenditure in respect of a qualified production will be raised to 60%.

☐ Application date

These changes will apply in respect of a qualified production for which an application for an advance ruling, or an application for a qualification certificate if no advance ruling has been filed in respect of that production, is filed with the SODEC after the day of the budget speech.

⁴⁹ *Act respecting the sectoral parameters of certain fiscal measures*, Schedule H, s. 9.5, 2nd par., subs. 1 to 9.

3. MEASURES RELATING TO CONSUMPTION TAXES

3.1 Increase in the specific duty on new tires for road vehicles

To fund the Québec Integrated Used Tire Management Program (hereinafter referred to as the “Program”), whose administration has been entrusted to the Société québécoise de récupération et de recyclage, RECYC-QUÉBEC, a specific duty on new tires for road vehicles was introduced on October 1, 1999.

More specifically, this specific duty of \$3 applies, among other things, regarding any new tire of a road vehicle which a person acquires by retail sale in Québec, or brings into Québec for purposes other than resale or installation on a road vehicle intended for sale or long-term lease. It also applies regarding any new tire provided as equipment on a road vehicle which a person acquires in Québec by retail sale or by long-term lease.

However, in 2020, it was estimated that the accumulated surplus would no longer be sufficient to fund the Program from 2024 onwards. The significant increase in the price of fuels and the good performance of the Program have accelerated the exhaustion of the accumulated revenues.

In addition, the one-time duty for car and truck tires does not adequately reflect the difference in processing costs between these two types of tires.

Consequently, in order to ensure the sustainability of the Program and to eliminate the inequity between the cost of processing car and truck tires, the specific duty on new tires for road vehicles, as it is currently applied, will be increased as follows:

- \$4.50 for new tires for road vehicles for which the diameter of the rim is less than or equal to 62.23 cm (24.5 inches) and the overall diameter is less than or equal to 83.82 cm (33 inches);
- \$6.00 for new tires for road vehicles for which the diameter of the rim is less than or equal to 62.23 cm (24.5 inches) and the overall diameter is greater than 83.82 cm (33 inches) but does not exceed 123.19 cm (48.5 inches).

❑ Application date

The increase in the specific duty will apply regarding any new tire which is acquired by retail sale or by long-term lease in Québec after June 30, 2023, or which is brought into Québec after that date for purposes other than resale, lease or installation on a road vehicle intended for sale or long-term lease. It will also apply regarding any new tire provided as equipment on a road vehicle acquired in Québec by retail sale or by long-term lease made after June 30, 2023.

3.2 Implementation of the new program for managing the tax exemption of First Nations regarding taxes

Under the federal *Indian Act*,⁵⁰ the personal property of a person with Indian status or a band situated on a reserve is exempt from taxation.

However, due to technical considerations, such an exemption is complex to apply to certain property that are subject to a specific tax. Where the tax exemption cannot be granted at the time of purchase, the purchaser must apply to Revenu Québec for a reimbursement.

As part of the budget speech of March 17, 2011, the implementation of a new mechanism for managing the tax exemption of persons with Indian status regarding fuel tax was announced.⁵¹

Since July 1, 2011, this new mechanism called the fuel tax exemption management program for persons with Indian status (hereinafter referred to as the “FTEI program”) has made it possible to replace the reimbursement measure with a purchase exemption measure.

As a result, since that date, persons with Indian status and bands may purchase fuel at the retail level on a reserve without paying tax by presenting to the retail dealer a registration card in the exemption management program issued by Revenu Québec, by signing the retail dealer’s sales register and by presenting to the retail dealer, if applicable, their Certificate of Indian Status issued by the competent federal authority.

In order to facilitate the application of the tax exemption for certain products covered by a specific tax, this budget provides funding, over five years, for the implementation of a computer system under the new program for managing the tax exemption of First Nations from taxes (hereinafter referred to as the “TEFNT program”). This program, which will be phased in as of July 1, 2023, will allow persons with Indian status to benefit from the exemption, to which they are entitled with respect to the tax on alcoholic beverages, directly at the time of purchase.

For greater clarity, the TEFNT program will therefore aim to facilitate the application of the tax exemption at the time of each retail sale of alcoholic beverages intended for home consumption.⁵² It is also important to note that the computer solution implemented under the FTEI program will be replaced by the one chosen for the new TEFNT program.

⁵⁰ R.S.C. 1985, c. I-5.

⁵¹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2011-2012 – Budget Plan*, March 17, 2011, pp. J.38-J.39.

⁵² For the purposes of this document, the term “home consumption” refers to alcoholic beverages acquired other than for consumption on the premises. For greater clarity, the TEFNT program will not, at this time, cover alcoholic beverages sold in bars and restaurants.

Consequently, this new program will facilitate, for retail-level sales on reserve, the application of the tax exemption under section 87 of the *Indian Act*⁵³ to both the retail acquisition of fuel and the retail acquisition of alcoholic beverages for home consumption.

❑ Application details – TEFNT program

■ Persons with Indian status

Persons with Indian status will be able to purchase alcoholic beverages at the retail level on a reserve for home consumption without paying the specific tax by presenting to the retail dealer their registration card issued by Revenu Québec as well as their Certificate of Indian Status issued by the competent federal authority.

To obtain the registration card, an application may be made to Revenu Québec using the prescribed form containing the prescribed information, with which the prescribed supporting documents must be attached. However, due to the delays in producing a card specific to the TEFNT program, the registration card currently issued under the FTEI program will be used temporarily.

In addition, a person who does not have or cannot present this card when purchasing at the retail level on a reserve will be able, in such circumstances, to continue using the existing reimbursement measure to recover the specific tax paid.

■ Retail dealers

For the purposes of this new purchase exemption measure, as is currently provided for in the FTEI program, a retail dealer located on a reserve will have to check the Indian status of a purchaser at the time of each retail sale of alcoholic beverages for home consumption. To that end, the retail dealer will need to verify the validity of the purchaser's TEFNT program registration card as well as the purchaser's identity by means of their Certificate of Indian Status.

In addition, since an advance collection system applies to the tax on alcoholic beverages such that retail dealers must pay an amount equal to such tax to their suppliers in advance, the use of the TEFNT computer solution will be deemed to be a claim for a reimbursement of the amount equal to the specific tax on alcoholic beverages in determining a retail dealer's exempt sales.

If a retail dealer does not participate in the program, it will still be able to apply to Revenu Québec for a reimbursement of the amount equal to the tax thus paid to its suppliers for the alcoholic beverages sold exempt from tax.⁵⁴

⁵³ See note 50.

⁵⁴ The reimbursement of an amount equal to the specific tax will be possible under section 21 of the *Tax Administration Act*.

■ Additional details

In general, the TEFNT program will be extended to the fuel tax system (hereinafter referred to as “the system”) and will replace the FTEI program while taking into account the specificities of the exemptions in the system for purchases of fuel at the retail level by, among other things, bands, tribal councils and band-empowered entities in relation to band management activities.

Moreover, under the current system, the retail dealer must keep a register of all exempt retail sales of fuel made to persons with Indian status and to bands and have them sign it at the time of each such transaction. This requirement will be maintained only when the retail dealer provides such an exemption without using the TEFNT program’s computer solution.

In addition, the system requires a retail dealer to file a monthly return for sales and for fuel tax, whether collected or not, using the prescribed form. As the TEFNT program is the retail dealer’s return, an exception to this filing requirement will therefore be provided exclusively where the retail dealer uses the TEFNT program’s computer solution.

Lastly, the system provides that retail dealers located on a reserve may benefit, under certain conditions, from a partial reduction of the amount equal to the fuel tax they must pay to their suppliers. Similarly, these “designated” suppliers may be permitted to apply a certain percentage reduction on the total quantity of fuel sold to such a retail dealer and, as a result, be exempt from collecting the amount equal to tax in respect of the quantity of fuel subject to the reduction. It will be provided that once the retail dealer uses the TEFNT program’s computer solution, the provisions relating to the reduction will no longer apply.

□ Application date

All of these changes will be made to Québec’s tax legislation and regulations to allow for the appropriate application of the measures introduced under the new management mechanism for the TEFNT program as of July 1, 2023.

4. OTHER MEASURES

4.1 Reduction in Québec Pension Plan contributions for workers aged 65 or older

The Québec Pension Plan (QPP) and the Canada Pension Plan (CPP) are public plans designed to provide a compensatory income to partially offset the loss of work income upon the retirement, disability or death of a worker.

These two plans, in which participation is mandatory, provide workers and their families with financial protection through benefits based on the eligible earnings recorded in their name in the Record of Contributors to these plans, up to a certain limit.

These public plans are funded through contributions that employees, employers and self-employed workers must pay.

As a rule, employees must, depending on where they work, pay a contribution to the QPP or the CPP by deduction at source from the salary and wages paid to them by their employer. Employers must pay a contribution equal to the contribution that each of their employees is required to pay.

Self-employed workers, depending on whether they reside in Québec or elsewhere in Canada, are subject to payment of a contribution to the QPP or the CPP on their self-employed earnings.

Since 2012, individuals who are responsible for a family-type resource (FTR) or an intermediate resource (IR) to which *the Act respecting the representation of family-type resources and certain intermediate resources and the negotiation process for their group agreements*⁵⁵ applies have also been subject to the payment of a QPP contribution on earnings from their activities as resources.

While the QPP and the CPP are not identical in all respects, they have been considered similar plans since their creation. As a result, they have always been administered so as to facilitate workers' mobility throughout Canada. To that end, the retirement, disability and survivor's benefits they provide take into account the pensionable earnings of workers on which contributions were paid, regardless of the plan to which the contributions were paid.

⁵⁵ CQLR, chapter R-24.0.2.

In 2019, the QPP and CPP were enhanced by the addition of a supplementary plan with the aim of offering retirees sufficient income.⁵⁶ As a result, both the QPP and CPP now consist of a basic plan⁵⁷ and a supplemental plan.⁵⁸

Currently, with respect to age-based contributions, the *Act respecting the Québec Pension Plan*⁵⁹ provides, as does the CPP, that beginning in the month following the month in which the employee turns 18 years of age, an employee who performs pensionable employment for an employer must pay a QPP contribution through deductions at source from the wages paid to the employee by that employer. The employer must pay an equivalent contribution.

Self-employed individuals who are resident in Québec on the last day of the year and workers responsible for an FTR or an IR must also contribute to the QPP in the year in which they turn 18 years of age on their earnings from self-employment and their earnings from resource activities, respectively.⁶⁰

However, unlike the CPP, even if an employee, a self-employed person or a worker responsible for an FTR or an IR reaches the age of 70 or receives a retirement pension under the QPP or CPP, he or she is generally still required to pay QPP contributions on any salary paid to him or her or on any eligible earnings received, as the case may be.

⁵⁶ For the QPP: *An Act to enhance the Québec Pension Plan and to amend various retirement-related legislative provisions*, S.Q. 2018, c. 2; for the CPP: *An Act to amend the Canada Pension Plan, the Canada Pension Plan Investment Board Act and the Income Tax Act*, S.C. 2016, c. 14.

⁵⁷ The basic plan is the one in place since 1966 under which workers and employers contribute for the portion of work income that falls between the general exemption of \$3 500 and the maximum pensionable earnings (MPE).

⁵⁸ The supplemental plan introduced in 2019 consists of “first additional contributions” made by workers and employers at a rate that gradually increases from 2019 through 2023. Beginning in 2024, new supplemental contributions will be made (called “second additional contributions”) for a portion of earnings between the MPE and a new cap. This new limit will be 107% of the MPE in 2024 and 114% of the MPE as of 2025.

⁵⁹ CQLR, chapter R-9, s. 50.

⁶⁰ For a year in which a worker reaches 18 years of age, the amount of their earnings for which a QPP contribution must be paid is equal to the amount obtained by multiplying the amount of their earnings by the proportion that the number of months after the day preceding their eighteenth birthday bears to 12.

In this regard, it should be noted that, although the *Act respecting the Québec Pension Plan* stipulates that an individual's "contributory period" – the base period used to calculate a retirement pension – ends, in particular, in the month preceding the individual's 70th birthday or the month preceding the month in which payment of a QPP or CPP retirement pension begins,⁶¹ the obligation to contribute to the QPP remains for the employee – without any age limit – and for the employer, whenever the salary paid exceeds the general annual exemption of \$3 500.⁶²

The same applies to self-employed workers and workers responsible for an FTR or an IR regarding the continued obligation to contribute to the QPP despite reaching the age of 70 or receiving a QPP or CPP retirement pension. In other words, although a self-employed worker or a worker responsible for an FTR or an IR may be receiving a QPP or CPP retirement pension, the obligation to contribute to the QPP remains for these workers as well, without any age limit, as long as they receive eligible earnings.

For 2023, the maximum QPP contribution for an employee is \$4 038.40 and the maximum contribution for self-employed workers and workers responsible for an FTR or an IR is \$8 076.80. The amount of these contributions can reduce the available work income of workers, which can have a discouraging effect when an experienced worker has to make the decision to stay in or return to the labour market.

Given the labour shortage in Québec, the government ought to use the leeway⁶³ provided by the QPP to improve the rate of income retention for workers aged 65 and over, thereby recognizing their contribution to the Québec labour market.

❑ Introduction of an option to stop paying QPP contributions for workers aged 65 years or older

In order to encourage the retention of experienced workers in Québec and to offer them more financial flexibility, the *Act respecting the Québec Pension Plan* will be amended to introduce, as of January 1, 2024, an option allowing workers aged 65 or over to stop paying QPP contributions, provided they are also receiving a QPP or CPP retirement pension.

⁶¹ See note 59, s. 101.

⁶² Since 2019, these contributions provide for an increase in the pension called the "retirement pension supplement," which is based on a percentage of the previous year's earnings on which contributions were made.

⁶³ This leeway can be defined as the difference between the current contribution rate and the steady-state contribution rate as determined by the latest actuarial valuation.

It should be noted that the CPP already provides workers aged 65 or older, but under 70, with the option of electing to stop making CPP contributions if they are receiving a QPP or CPP retirement pension.⁶⁴

The election to stop paying QPP contributions will be reflected in the *Act respecting the Québec Pension Plan* by the exclusion, in the description of a worker's earnings and income subject to QPP contributions, of an employee's income with an employer and the earnings of self-employed workers or workers responsible for an FTR or an IR in respect of whom an election has been made. In addition, to be valid, the election will be subject to various conditions and terms of application.⁶⁵

■ Conditions for the election and terms of application

The election to cease paying QPP contributions will be subject to specific conditions for employees, self-employed workers and workers responsible for an FTR or an IR.

Thus, in the case of employees, this election:

- will be effective on the first day of the month following the month in which it was made;
- may be made only once a year with an employer;
- may be revoked;
- may not be made in the year in which an election is revoked;
- may not be revoked in the year in which it is made;
- will cease to have effect on the first day of the month following the month in which it is revoked;
- will be deemed to apply to wages from jobs held by the worker consisting of work covered for the purposes of the QPP in respect of which the election has been made;
- must be made or revoked in accordance with the prescribed terms and conditions.

⁶⁴ *Canada Pension Plan*, R.S.C. 1985, c. C-8 (CPP). The federal measure came into force on January 1, 2012. Paragraph 12(1)(c) of the CPP provides for an election to exclude income from pensionable employment after a person has reached 65 years of age if a retirement pension under the CPP or under the *Act respecting the Québec Pension Plan* is payable. Paragraph 13(1)(b) of the CPP provides for an election to exclude self-employed earnings when a retirement pension under the CPP or the *Act respecting the Québec Pension Plan* is payable, and this election cannot be made earlier than the month in which the person reaches 65 years of age or the month in which a retirement pension is payable.

⁶⁵ *Ibid.*, subs. 12(1.1) and 13(1.1).

In the case of self-employed persons and workers responsible for an FTR or an IR, the election to stop making QPP contributions:

- will be deemed to have been made on the first day of the month specified by the worker;
- may only be made once in any one year;
- may be revoked;
- may not be made in respect of a year in respect of which it is deemed to have been revoked;
- may not be revoked in respect of a year in respect of which it is deemed to have been made;
- will be deemed to have been revoked on the first day of the month specified by the worker;
- may not be in respect of a year in which the person has employment income;
- must be made or revoked in accordance with the prescribed terms and conditions.

■ **Clarifications and terms and conditions applicable to employees**

Provided they are receiving a QPP or CPP retirement pension, employees may elect to stop paying QPP contributions as of the day following their 65th birthday by filing a form with the employer. This form must be kept by the employer and must be filed with Revenu Québec upon request.⁶⁶

The election will take effect on the first day of the month following the date on which the election form is given to the employer. Therefore, an employer will be able to stop deducting QPP contributions as of the first pay of the month following the month in which the election form is provided.

Once made, the election to stop making QPP contributions by a worker who is an employee will also apply to his employer, so that the latter will also become exempt from making QPP contributions as of the same date as that which applies to the employee.

If a worker changes jobs, a new election must be made with the new employer.

⁶⁶ A specific form equivalent to the federal CPT30 form for the election to stop contributing to the CPP will be developed by Revenu Québec for the application of the new election to stop contributing to the QPP. This form should also allow for the possibility to revoke this election.

- **Clarifications and terms and conditions applicable to self-employed workers and workers responsible for an FTR or an IR**

Self-employed workers and workers responsible for an FTR or an IR may elect to stop contributing to the QPP when they file their income tax return for the year in which they reach age 65, provided that they were receiving a QPP or CPP retirement pension at that time.

Workers will make this election by indicating on a form to be filed with Revenu Québec the month of the year in which they decide that the election will take effect. The election indicated by the worker on the form cannot be earlier than the first day of the month following the one in which the worker reaches age 65 and was also receiving a QPP or CPP retirement pension.⁶⁷

- **Additional clarifications and terms and conditions**

Since the choice to stop contributing to the QPP will be made during the course of a year, various consequential amendments will have to be made in the *Act respecting the Québec Pension Plan*.

Moreover, as mentioned above, the election to stop paying QPP contributions will be revocable, similar to an election made in the case of contributions to the CPP. To this end, the provisions of the *Act respecting the Québec Pension Plan* will need to be amended to provide for the possibility of revoking the election to stop paying QPP contributions. As well, the form that allows for the cessation of contributions to the QPP should provide for the possibility of making a revocation of the election.

Therefore, an election to stop contributing to the QPP will remain in effect until the day on which its revocation takes effect or until December 31 of the year in which the worker will reach the age of 72 (as described in the section below). Similarly, a revocation of an election to stop paying QPP contributions will remain in effect until the day of the month in which a new election to stop paying QPP contributions made to an employer becomes effective.

Lastly, the forms for making an election to stop paying QPP contributions will include a statement by workers acknowledging that, as a result of the election, no future supplement to the retirement pension can be allocated or counted in respect of the employment covered by the election.

- ❑ **End of the obligation to contribute to the QPP for workers over 72 years of age**

The *Act respecting the Québec Pension Plan* will be amended so that, as of the year 2024, the obligation to contribute to the QPP will cease for workers over 72 years of age, for all workers subject to the contributions provided for by this Act.

⁶⁷ Currently, Schedule 8 of the T1 income tax return for provinces other than Québec is adapted to allow self-employed persons to elect to stop making CPP contributions and to allow them to revoke this election. It will be up to Revenu Québec to create or adapt a form to be included with the income tax return to allow self-employed workers and workers responsible for an FTR or an IR to make their election to stop contributing to the QPP or to revoke this election, if applicable.

More specifically, the obligation to contribute to the QPP for a worker will cease as of the year in which the worker turns 73. Consequently, all wages paid and earnings received as of January 1 of the year in which a worker reaches age 73 will no longer be subject to QPP contributions.

4.2 Strengthening tax compliance regarding cryptoassets

Over the past few years, there has been a significant increase in the use of virtual currencies⁶⁸ and, more generally, of cryptoassets⁶⁹ (commonly referred to as “virtual assets”), both nationally and internationally. In fact, transactions using these virtual assets are increasing and Quebecers are becoming more and more interested in them.

Briefly, virtual currencies can be used as a form of payment when they are accepted by a merchant or service provider. They can also be exchanged through an exchange platform or on a peer-to-peer basis, without needing to resort to the traditional financial system.

However, according to tax authorities, since virtual currencies are not a legal tender in Canada, they are considered to be commodities, not money. Consequently, for income tax purposes, transactions made using virtual currencies are considered barter transactions.⁷⁰

For example, when a taxpayer uses virtual currency in a transaction or trades in virtual currency, there may be tax consequences in the following situations:

- acquisition or sale of goods or services;
- conversion to a monetary currency;
- exchange for another virtual currency;
- donation.

⁶⁸ According to the Office québécois de la langue française (OQLF), virtual currency (*monnaie virtuelle*) is defined as follows: “A currency deployed in a virtual space. Some virtual currencies, such as crypto-currencies, are said to be convertible and can be exchanged for a fiat currency, and vice versa. The legal value of virtual currencies is generally not guaranteed by the government. Many video games incorporate virtual currency used for entertainment purposes to buy accessories for characters or unlock features, for example.” [Translation] (*Vitrine linguistique*, [Online], 2019, <https://vitrinelinguistique.oqlf.gouv.qc.ca/fiche-gdt/fiche/26552605/monnaie-virtuelle>).

⁶⁹ According to the OQLF, cryptoassets (*cryptoactifs*) are defined as: “A set of securities whose transactions are recorded on a blockchain. Cryptoassets include cryptocurrencies, but also other units of value, based on the same technology, that allow access to particular services or act as a title, for example.” [Translation] (*Vitrine linguistique*, [Online], 2019, <https://vitrinelinguistique.oqlf.gouv.qc.ca/fiche-gdt/fiche/26556537/cryptoactif>).

⁷⁰ A barter transaction occurs when two people agree to exchange goods or services without using money.

When a transaction is carried out with or in respect of a virtual currency and generates tax consequences, a taxpayer must generally report it to the tax authorities.

Revenu Québec raises awareness among taxpayers regarding their obligation to report income from transactions involving virtual assets through various publications.

Without the necessary tools to follow the evolution of this sector, Revenu Québec is not in a position to carry out the necessary tax audits and can therefore hardly fulfill its mission to ensure the fair application of tax laws for certain Québec taxpayers who use these virtual assets.

Amendments will therefore be made to the tax legislation and regulations to give the Minister of Revenue the power to ask taxpayers whether they own or have used virtual assets to carry out certain transactions during a taxation year or a fiscal year, as the case may be, and to request, where applicable, the details of these transactions.

❑ Application date

This measure will apply as of the date of assent to the bill giving effect to this measure.

4.3 Changes to the intervention framework for tax-advantaged funds

For many years, the Fonds de solidarité des travailleurs du Québec⁷¹ (hereinafter referred to as the “Fonds de solidarité F.T.Q.”), the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l’emploi⁷² (hereinafter referred to as “Fondaction”) and Capital régional et coopératif Desjardins⁷³ (hereinafter referred to as the “CRCD Fund”) have played an important role in Québec’s investment capital industry.

Each of these funds contributes to Québec’s economic growth by providing Québec businesses with access to unsecured capital that complements traditional financing offered by financial institutions. In addition, because of their mission, these funds seek to raise awareness among workers of the importance of participating in the growth of Québec businesses by inviting them to subscribe to the shares they issue.

The government supports the growth of these investment funds by allowing them to raise capital that provides a tax benefit in the form of a non-refundable tax credit granted to individuals who become their shareholders.

⁷¹ MINISTÈRE DES FINANCES DU QUÉBEC, *Déclaration ministérielle*, June 10, 1983.

⁷² *Id.*, *Budget 1995-1996 – Budget Speech and Supplementary Information*, May 9, 1995, Appendix A, p. 71.

⁷³ *Id.*, *Budget 2001-2002 – Additional Information on the Budgetary Measures*, section 1, p. 56.

The capitalization of these tax-advantaged funds being facilitated by the granting of a tax benefit, an investment requirement was included in their respective constituting acts⁷⁴ to ensure, notably, that the funds collected are used as a financing tool contributing to the growth of Québec businesses.

In this regard, the investment requirement imposed on labour-sponsored funds⁷⁵ demands that, for each of their fiscal years, their eligible investments represent, on average, at least 65% of the value of their average net assets for the preceding fiscal year.

Given the specific mission of the CRCD Fund, its constituting act requires that, for each fiscal year, its eligible investments represent, on average, at least 65% of the value of its average net assets for the preceding fiscal year and that a portion corresponding to at least 35% of that percentage be invested in eligible cooperatives or in entities situated in the resource regions of Québec.

Failure to meet its investment requirement for a particular fiscal year will result in a tax-advantaged fund being limited in its capacity to issue shares during the following fiscal year.

In order to optimize the economic spin-offs resulting from the interventions of these three tax-advantaged funds, to limit the tax expenditure associated with them, to ensure a better match between the investment horizon of the labour-sponsored funds and the minimum holding period of the shares entitling them to the non-refundable tax credit, and to enable a greater number of individuals to become shareholders of these funds, amendments will be made to the constituting act of the tax-advantaged funds as well as to the tax legislation. These changes will:

- simplify the investment requirement applicable to the three tax-advantaged funds by reorganizing the investment categories provided for in each of the constituting acts;
- clarify the mission of the three tax-advantaged funds by updating and enhancing the functions currently set out in each of the constituting acts, in particular to introduce the concept of savings;
- maximizing the economic impact of labour-sponsored funds' investments by increasing the minimum holding period for shares in labour-sponsored funds;
- refocus tax assistance on taxpayers with greater savings needs by introducing a rule limiting access to the non-refundable tax credit for a labour-sponsored fund.

⁷⁴ *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)* (CQLR, c. F-3.2.1); *Act to establish Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* (CQLR, c. F-3.1.2) and *Act constituting Capital régional et coopératif Desjardins* (CQLR, c. C-6.1).

⁷⁵ The term "labour-sponsored funds" refers to the Fonds de solidarité F.T.Q. and Fondation, while the term "tax-advantaged funds" refers to both labour-sponsored funds and the CRCD Fund.

4.3.1 Reorganization of investment categories for the three tax-advantaged funds

To take into account the fact that the financing of tax-advantaged funds is facilitated by the granting of a tax benefit, several measures have been put in place over the years to govern the organization of these funds, to protect the investors they call upon and to ensure that they respect their mission.

In this regard, various changes have been made to the terms and conditions for calculating the investment requirements of tax-advantaged funds, as well as to the list of eligible investments, so that the investment requirement for each tax-advantaged fund is better adapted to its mission and to the capital needs of Québec businesses. These changes have made the administration of these investment requirements and the monitoring needed to verify their relevance and effectiveness more complex.

To ensure better governance of these requirements, the constituting acts of the three tax-advantaged funds will be amended to allow for a reorganization of the current eligible investment categories into three new investment categories.

□ New investment categories

■ Category 1 – Québec businesses

The first category will include investments made by a tax-advantaged fund in small, medium and large Québec businesses, to which will be added, according to the categories of the current investment requirement, strategic investments, major investments, investments made otherwise than as first purchaser and reinvestments in Québec businesses.

New investments included in category 1 must be made in active businesses in Québec, on the one hand, and the businesses must be Québec-owned, or have a main decision-making centre in Québec.

A maximum of 30% of the average value of a fund's net assets, as established for the previous fiscal year, may be devoted to investments in large businesses. For this purpose, a large business must have assets in excess of \$200 million or a net worth in excess of \$100 million in its financial statements at the time a fund intends to make such an investment.

■ **Category 2 – Québec investment funds**

The second category will include investments made by a tax-advantaged fund in a local venture capital fund established and managed in Québec, a local fund recognized by the Minister of Finance or a specific investment fund already identified in the investment requirement.

New investments included in category 2 must be made in new or existing investment funds managed in Québec, whether or not in partnership with the government.

The investment funds in this category must each invest in businesses eligible for category 1 in an amount at least equivalent to the amounts invested by a tax-advantaged fund in such an investment fund.

■ **Category 3 – Other investments for the benefit of Québec**

The third category will include investments made by a tax-advantaged fund that are not included in the preceding categories, namely:

- investments made by a tax-advantaged fund, or, if applicable, one of its wholly controlled subsidiaries, in new or substantially renovated income-producing immovables located in or outside Québec;
- investments made by a tax-advantaged fund outside Québec in accordance with an investment policy adopted by the board of directors of the Fund and approved by the Minister of Finance, as well as investments in an enterprise whose activity outside Québec has an impact on economic activity in Québec.

Investments previously made by a fund will be recognized for the purposes of calculating the simplified requirement, but no new investments made after the introduction of the simplified requirement will be accepted under the old requirement.

New investments in the real estate sector (new or substantially renovated income-producing immovables located in Québec) will be eligible for inclusion in Category 3 for the purposes of calculating the simplified requirement, provided that they generate certain societal benefits for Québec, including environmental, social or cultural benefits, whether in the acquisition, construction, renovation or operation of the immovable or infrastructure. Societal benefits will be defined in the overall investment policy that must be agreed upon with the Minister of Finance.

New investments made by a tax-advantaged fund in an investment fund administered outside Québec will be eligible for Category 3, provided that the investment fund invests in businesses eligible for Category 1 in an amount at least equivalent to the amounts invested by a tax-advantaged fund in such an investment fund.

Investments made in category 3 may represent no more than 10% of the average value of the net assets, as determined for the previous fiscal year of a tax-advantaged fund.

❑ Authorization mechanisms

Currently, to be included in certain categories of eligible investments, investments must be made in accordance with a specific investment policy adopted by the board of directors of a tax-advantaged fund and approved by the Minister of Finance.

In order to simplify the management of investments by tax-advantaged funds, the government intends to provide a framework for all tax-advantaged funds through a comprehensive investment policy specific to each fund. This policy will be adopted by the board of directors of a tax-advantaged fund and approved by the Minister of Finance. It will be implemented by the funds through their own governing bodies. Once approved, the investment policy will not need to be approved periodically, but the Minister of Finance or the authorized representative of the board of directors of a tax-advantaged fund may request amendments and the tabling of an update to the policy.

This policy will provide greater flexibility to tax-advantaged funds and will ensure that the approval of the Minister of Finance to make investments will not be required.

The comprehensive investment policy will, among other things, provide for its effective date and give the Ministère des Finances the authority to require reporting in whatever form, content and frequency it deems appropriate.

❑ Other terms and conditions

New investments or reinvestments in entities that were held in a portfolio prior to the effective date of the reorganization of the eligible investment categories will be reclassified into the same category as the original investment.

For greater clarity, the requirement that eligible investments of tax-advantaged funds represent at least 65% of the value of the average net assets of a particular fund will be maintained notwithstanding the consolidation of investments into three categories.

Moreover, an amendment will be made to the constituting acts of the tax-advantaged funds⁷⁶ to provide that the calculation of the minimum 65% requirement (value of average net assets) will now take into account an additional year for the purpose of establishing the average. As a result, the calculation of the requirement will take into account three years rather than two, and will consider in this determination the eligible investments of a fund at the beginning of the previous fiscal year and the assets of a fund at the beginning of the second previous fiscal year. These changes will be the subject of a specific announcement in the coming months.

⁷⁶ *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, s. 15, 3rd par., subpar. 3; *Act to establish Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi*, s. 19, 3rd par., subpar. 3, and *Act constituting Capital régional et coopératif Desjardins*, s. 19, 3rd par., subpar. 3.

Lastly, the CRCD Fund's constituting act will be amended, on the one hand, to increase from 35%⁷⁷ to 50% the proportion of investments eligible for the fund's investment requirement that must be made in eligible cooperatives or in entities situated in the resource regions of Québec and, on the other hand, to provide that the regions eligible for the calculation of this investment requirement specific to the fund will include all of Québec's regions, with the exception of the municipalities of the Communauté métropolitaine de Montréal and the Communauté métropolitaine de Québec.⁷⁸

❑ Application date

The constituting acts of the three tax-advantaged funds will be amended so that the new eligible investment categories and other terms and conditions can be incorporated into the respective legislation to take effect on June 1, 2024, in the case of the labour-sponsored funds, and January 1, 2024, in the case of the CRCD Fund.

4.3.2 Update on the function of each of the three tax-advantaged funds

The constituting legislation of each of the three tax-advantaged funds sets out, in general terms, the investment objectives of each organization. To this end, the enabling legislation established "functions" that highlight these directions.

These functions have not been significantly revised since the constituting legislation was put in place, so they are now out of date, thereby limiting opportunities to address the challenges of accumulating savings for retirement, particularly for self-employed individuals and employees in very small businesses, the increased need for venture capital to develop new, growing businesses, or the emergence of new economic development realities, such as the need to embrace technologies related to digital transformations and climate change.

Therefore, the functions set out in each of the constituting acts will be updated and will be used to express the mission of each of the entities from now on.

❑ New mission of the Fonds de solidarité F.T.Q.

The mission of the Fonds de solidarité F.T.Q. will now be stated as follows:⁷⁹

- to encourage retirement savings among Québec workers to enable them to enjoy a decent retirement, in particular by issuing shares;

⁷⁷ *Act constituting Capital régional et coopératif Desjardins*, s. 19.

⁷⁸ *Ibid.*, Schedule 2.

⁷⁹ *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*. Section 13 will be revised to reflect updated content.

- to make development capital and venture capital investments in eligible businesses and to provide them with support services to deal with the issues they face, in order to create, maintain and protect jobs and to better prepare workers and businesses in Québec for the future;
- to promote the training of workers in the areas of the economy, retirement, climate change and other areas of importance to the Québec economy and enable them to increase their influence on the economic development of Québec and their businesses;
- to create value by stimulating the Québec economy through strategic investments that will be of benefit to Québec workers and businesses.

▣ New mission of Fondaction

Fondaction's mission will henceforth be described as follows.⁸⁰ On the one hand, Fondaction intends to place particular emphasis on the following two aspects:

- to support Québec workers in their efforts to save more for their retirement, in particular by raising awareness and by offering an accessible savings product;
- to channel accumulated savings for the economic, social and environmental benefit of Québec, by investing them according to an approach that meets the needs of individuals while protecting our environment and respecting the limitations of natural ecosystems.

On the other hand, Fondaction intends to prioritize investments that seek primarily:

- to promote businesses whose activities are in line with a sustainable development perspective and which integrate environmental, social and governance factors into their decision-making;
- to support enterprises in growing their businesses, improving their productivity, reducing their environmental footprint, stimulating innovation and fostering inclusion in order to increase their value, resilience and sustainability;
- to support strategic initiatives and projects with significant economic impact that promote access to quality jobs, protect the environment and reduce inequalities;
- to enable workers to have a collective impact on the sustainable development of Québec.

⁸⁰ *Act to establish Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi.* Section 16 will be revised to reflect updated content.

❑ **New mission of the CRCD Fund**

The mission of the CRCD Fund will henceforth be expressed through the following functions:⁸¹

- to make investments in eligible businesses and provide them with support services in order to improve their productivity and create wealth;
- to promote the economic development of the regions through investments in eligible businesses operating there;
- to raise venture capital and development capital for the benefit of the regions and the cooperative sector;
- to support the cooperative movement throughout Québec.

❑ **Application date**

The constituting acts of the three tax-advantaged funds will be amended to give effect to the new missions of the tax-advantaged funds as of June 1, 2024, in the case of the labour-sponsored funds, and January 1, 2024, in the case of the CRCD Fund.

4.3.3 Increase in the minimum holding period for a labour-sponsored fund share

Currently, the constituting acts of labour-sponsored funds provide that shareholders may, under certain conditions, require the redemption of their shares after a minimum holding period of 730 days (two years) since their issue. In addition, it should be noted that, in general, shareholders may not redeem or purchase their shares by agreement before reaching the age of 65 or, if they have not reached that age, before they have availed themselves of their right to early retirement or retirement.

This approach makes it possible to combine the objectives pursued by labour-sponsored funds with respect to the supply of patient capital to Québec businesses with those pursued by individual investors with respect to retirement savings.

Also, to ensure that the non-refundable tax credit contributes more to the achievement of these objectives, amendments will be made to the constituting act of each labour-sponsored fund to provide that the current minimum holding period of two years be gradually extended to five years. Accordingly, the minimum holding period for shares of a labour-sponsored fund will be increased to three years for shares acquired as of June 1, 2024, to four years for shares acquired as of June 1, 2025 and to five years for shares acquired as of June 1, 2026.⁸²

⁸¹ *Act constituting Capital régional et coopératif Desjardins.* Section 8 will be revised to reflect updated content.

⁸² Exceptions currently provided to the retention rules are not changed.

This change will help strengthen the role of tax assistance by limiting the number of transactions whose sole purpose is to generate a non-refundable tax credit, without any tangible increase in the capital available for investment by labour-sponsored funds.

❑ Application date

The constituting acts of the two labour-sponsored funds will be amended to give effect to this change as of June 1, 2024.

4.3.4 Introduction of a rule limiting access to the non-refundable tax credit for a labour-sponsored fund

Currently, an individual⁸³ who acquires as first purchaser shares issued by a labour-sponsored fund of a class of eligible shares⁸⁴ may claim a non-refundable tax credit in a taxation year equal to 15% of the amount paid to acquire such shares in the year or within 60 days thereafter.⁸⁵

The total amount of shares acquired from a labour-sponsored fund that an individual may take into account for the purpose of calculating the non-refundable tax credit for a year cannot exceed \$5 000. Therefore, the tax credit cannot exceed an amount of \$750.

In order to refocus the tax assistance on individuals with greater savings needs, the tax legislation will be amended so that high-income individuals will no longer be eligible for the non-refundable tax credit.

In particular, an individual will no longer be able to benefit from this tax credit, for a taxation year, as long as the individual's taxable income is subject to the highest⁸⁶ tax rate of the personal income tax table for the base year. For greater clarity, it will not be possible to carry forward the unallocated amount of the non-refundable tax credit.

The base taxation year will mean the taxation year that ends on December 31 of the second calendar year preceding the taxation year for which an individual claims the non-refundable tax credit for a labour-sponsored fund.

This change will apply to a claim for the non-refundable tax credit for a taxation year after the 2023 taxation year in respect of shares acquired after December 31, 2023.

⁸³ Except for a dealer acting in their capacity as intermediary or firm underwriter.

⁸⁴ A Class "A" share of the Fonds de solidarité F.T.Q. or a Class "A" or "B" share of Fondation.

⁸⁵ The amount paid includes only the shares' issue price.

⁸⁶ *Taxation Act*, s. 750, par. d.

Consequently, for the 2024 taxation year, the first year of application of this new measure, the base year will be the 2022 taxation year. The maximum taxable income not subject to the highest tax rate in the applicable personal income tax table for that base tax year was \$112 655.⁸⁷ Therefore, only individuals whose taxable income for the 2022 taxation year did not exceed the \$112 655 threshold will have access to the tax credit for a labour-sponsored fund for the 2024 taxation year.

For greater clarity, this amendment will ensure that Revenu Québec will be able, as of the 2024 taxation year, to deny an individual the non-refundable tax credit for a labour-sponsored fund on the basis of the individual's taxable income for the base taxation year.

⁸⁷ This threshold is automatically indexed each year.

Section B

ENSURING TAX FAIRNESS

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1. ENSURING TAX FAIRNESS

Tax revenues are collected to ensure the financing of public services provided to Québec citizens. To this end, the government must ensure, in a spirit of fairness, that everyone pays their fair share and make it easier for citizens to meet their legal obligations and obtain the amounts to which they are entitled.

To do so, the government is continuing its efforts to ensure tax fairness and combat tax evasion. The government's approach is twofold:

- simplify the actions that citizens must take to meet their tax obligations and to obtain the tax assistance to which they are entitled;
- act appropriately in tax audits with taxpayers who seek to avoid their tax obligations.

The government must continually adjust its approach to changes in the economy and to new schemes by offenders. In order to adapt effectively, it must incorporate the latest technologies in the fight against tax evasion.

Budget 2023-2024 provides investments of \$116.9 million over five years to strengthen the government's approach, for the purpose of:

- ensuring tax fairness;
- upgrading service delivery at Revenu Québec;
- stepping up the fight against smuggling and economic crime.

In addition, the planned measures are expected to generate \$200 million over five years.

TABLE B.1

Financial impact of all the actions to ensure tax fairness (millions of dollars)

	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	Total
Ensuring tax fairness ⁽¹⁾	—	—	—	—	—	—
Upgrading service delivery at Revenu Québec	-4.9	-9.4	-15.4	-25.0	-22.2	-76.9
Stepping up the fight against smuggling and economic crime	-8.0	-8.0	-8.0	-8.0	-8.0	-40.0
Subtotal	-12.9	-17.4	-23.4	-33.0	-30.2	-116.9
Revenues generated by stepping up tax audit interventions	35.0	40.0	40.0	40.0	45.0	200.0
TOTAL	22.1	22.6	16.6	7.0	14.8	83.1

(1) The measures under this initiative will be funded from the budgets allocated to Revenu Québec and the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government.

1.1 Stepping up tax audit interventions

To ensure the fair application of tax laws and thus contribute to the economic and social development of Québec, Revenu Québec carries out audit activities.

However, the rapid evolution of technologies requires increasing the organization's expertise and making the methods used even more sophisticated.

In Budget 2023-2024, the government is announcing the deployment of new tax audit initiatives at Revenu Québec, including the hiring of additional staff, which will enable the agency to strengthen its mission. Through these initiatives, Revenu Québec aims to:

- strengthen its position in the fight against aggressive tax planning and in the monitoring of high-risk sectors;
- step up its inspection activities in all sectors of activity, particularly those considered at risk of tax evasion.

It is estimated that the measures put in place will increase government revenues by \$200 million over a five-year period.

TABLE B.2

Financial impact of the measures to step up tax audit interventions (millions of dollars)

	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	Total
Revenues generated by stepping up tax audit interventions	35.0	40.0	40.0	40.0	45.0	200.0
TOTAL	35.0	40.0	40.0	40.0	45.0	200.0

New obligations for companies in terms of transparency

Assented to on June 8, 2021, *An Act mainly to improve the transparency of enterprises* introduces new transparency obligations for enterprises required to register¹ with the Registraire des entreprises du Québec (REQ). In recent years, many countries have introduced such requirements, as recommended by a number of international bodies. Québec is a leader in corporate transparency in Canada.

The new obligations will come into effect on March 31, 2023, and require registrants to:

- provide information on ultimate beneficiaries so that this information can be made public;
- provide a copy of identification for each active director;
- record the date of birth of any natural person registered with the REQ.

In addition, the legislation contains several mitigating measures to protect the privacy of individuals. Thus, the REQ will not disclose:

- the residential address of natural persons if a valid professional address is declared;
- information about minors when they are ultimate beneficiaries;
- the date of birth of a natural person declared in the register;
- personal information if it poses a serious threat to that person's safety.

These new obligations will improve public protection, strengthen corporate transparency and improve the quality of information declared to the REQ. At the same time, they will also make it possible to combat more effectively schemes that seek to conceal the identity of ultimate beneficiaries and that facilitate tax evasion and abusive tax avoidance, money laundering and the financing of criminal activities.

It will be possible to carry out searches by name of a natural person listed in the REQ as of March 31, 2024.

¹ Certain forms of business are not required to meet the new obligations, including legal persons established in the public interest, non-profit legal persons, as well as certain banks and financial institutions.

1.2 Gathering the necessary information on cryptoassets

The last few years have been marked by the rise of cryptoassets nationally and internationally and their use by some Quebecers. This new trend brings issues, including the non-compliance of some taxpayers with tax obligations.

By requesting information about cryptoassets on tax return forms, Revenu Québec will promote tax compliance by encouraging self-assessment.

In addition, the information gathered will be used in conducting proper tax audits and monitoring the cryptoasset sector.

1.3 Overseeing cryptoasset ATMs

Since the emergence of blockchain and cryptoassets, many service providers have developed ways to facilitate transactions of this type of asset, including cryptoasset trading platforms and ATMs.

Although the use of cryptoassets is most often for legitimate purposes, some people may use the technology for tax evasion and money laundering.

This issue concerns cryptoasset ATMs, among other tools, which could be used for money laundering schemes.

The government will make legislative changes to better oversee ATMs used to trade cryptoassets in Québec. Additional monitoring efforts will also be deployed.

The Organisation for Economic Co-operation and Development's *Crypto-Asset Reporting Framework and Amendments to the Common Reporting Standard*

In October 2022, the Organisation for Economic Co-operation and Development (OECD) introduced a new global tax transparency framework for cryptoassets, the *Crypto-Asset Reporting Framework and Amendments to the Common Reporting Standard*.

This framework addresses the rapid adoption of cryptoassets and the tax challenges arising from the use of this type of asset, by ensuring transparency of cryptoasset transactions through the automatic exchange of corresponding information with taxpayers' jurisdictions of residence.

In addition, the framework contains model rules that governments can adopt to ensure greater tax transparency and fairness. The OECD thus proposes that cryptoasset service providers, such as cryptoasset exchange platforms and ATM operators, follow due diligence procedures to identify their users and provide information on their customers' transactions to tax authorities annually.

The information about each customer that would have to be reported annually by cryptoasset service providers would include:

- the total aggregate market value in fiat currency for each cryptoasset traded;
- the breakdown by transaction type by counterparty (fiat currency, other cryptoassets, transfer, etc.);
- the distinction between transfers to addresses hosted by cryptoasset service providers or financial institutions and transfers to private wallet addresses.

The OECD is continuing its work to implement the *Crypto-Asset Reporting Framework*, which will require bilateral and multilateral agreements or arrangements between competent authorities, in particular to implement the automatic exchange of information as well as technological solutions.

Source: Organisation for Economic Co-operation and Development.

1.4 Focusing on prevention in the construction sector

In recent years, the government has made sustained efforts to combat tax evasion and unreported work in the construction sector.

In addition to continuing its inspection, auditing and investigation activities on job sites and in establishments, the government recognizes the importance of focusing on prevention to ensure worker and contractor compliance in the construction sector.

Some employers and workers find themselves in a situation of non-compliance because of a lack of knowledge of the legal and regulatory requirements.

This is why the Commission de la construction du Québec will step up its prevention activities in order to raise awareness among work providers, employer and union associations, employers and employees about their rights and responsibilities.

To this end, the government is providing more funding to combat tax evasion and unreported work in the construction sector.

2. UPGRADING SERVICE DELIVERY AT REVENU QUÉBEC

Citizens and businesses want to be able to meet their tax obligations simply and efficiently, while easily benefitting from the amounts to which they are entitled. Revenu Québec is upgrading its service delivery by capitalizing on the potential offered by new technologies to meet the needs expressed by its clients.

2.1 Continuing the implementation of project VISION

In Budget 2022-2023, \$123.4 million over five years was provided to Revenu Québec to undertake project VISION, which is aimed at transforming the provision of services to individuals and businesses into a simplified, more efficient, digital tax administration model. This large-scale project will allow the gradual implementation of innovative solutions to benefit taxpayers.

Project VISION focuses on five main areas:

- simplifying the client experience;
- improving services to businesses;
- strengthening information security;
- fighting tax evasion and fraud;
- modernizing computer systems.

Deployment of measures in these five main areas has begun and will continue over the next few years. To do this, the government is providing an additional \$62.8 million in funding over five years.

2.2 Helping citizens receive the tax assistance measures to which they are entitled

Québec's tax system provides several measures to assist citizens, particularly low-income households. In general, citizens must have filed their income tax returns to be eligible for these assistance measures. However, some people are missing out on amounts that they would otherwise be entitled to because they have not filed their tax returns.

In order to help these people receive the assistance measures to which they are entitled, Revenu Québec will set up a pilot project offering pre-filled tax returns to a targeted clientele, primarily vulnerable people, according to information held by the agency. These taxpayers will have the choice of confirming Revenu Québec's proposal or completing their own return.

As part of this pilot project, Revenu Québec will offer a pre-filled tax return to individuals with a simple tax profile.¹ This project will target a limited number of individuals in order to allow for a quick, thorough and secure deployment. Following this pilot project, the agency will adopt a phased approach by gradually expanding the target clientele, based on the experience gained and the insights gleaned.

¹ A simple tax situation is one where the tax authority acquires, through third party statements, all the information necessary to assess the taxes and benefits to which an individual is entitled (employment income, pension income, RRSP income, scholarships, etc.).

Helping citizens meet their tax obligations and obtain the amounts to which they are entitled

Revenu Québec is sensitive to the realities of different clienteles, particularly those with low incomes. In order to enable vulnerable clienteles to benefit quickly from the amounts to which they are entitled, fulfill their tax obligations and obtain certain tax credits, the agency has put in place a number of support measures.

Income Tax Assistance – Volunteer Program

The Income Tax Assistance – Volunteer Program calls on hundreds of volunteers to assist people who need help filing their tax return and cannot afford professional services. More than 165 000 citizens with modest incomes and simple tax situations benefit from this program each year.

Measures to facilitate the filing of income tax returns

To facilitate the filing of their tax returns, individuals can download tax data into tax software to pre-fill their tax returns. In addition, low-income individuals, students and seniors can, under certain conditions, benefit from free commercial software.

Initiatives adapted for certain targeted clienteles

Revenu Québec is seeking to develop positive relationships with its clienteles by taking a simple and secure approach. The efforts deployed are targeted and adapted to the profile and needs of the various clienteles such as low-income people, First Nations and Inuit, and newcomers. The agency is working to develop and implement several initiatives, in particular:

- automatically paying certain tax assistance measures to more than 40 000 recipients of last-resort financial assistance without their having to file an income tax return;
- forming new partnerships with departments and bodies working with the targeted clienteles to ensure that their needs are taken care of in an integrated manner;
- increasing the number of personalized communications to better inform and support these clienteles;
- streamlining existing processes and informing clientele to allow more people to benefit from the programs:
 - for example, with respect to the Shelter Allowance Program, administered by Revenu Québec for the Société d'habitation du Québec, the process has been modernized and many potential recipients have received the necessary application documents by mail. This proactive approach has helped double the number of beneficiaries;
- informing clienteles by expanding the use of different platforms:
 - to this end, Revenu Québec has launched the justepourtous.ca digital platform. The content is designed to provide answers to citizens' most commonly asked questions about filing their income tax returns.

2.3 Improving services to businesses

The modernization of Revenu Québec's computer systems opens the door to new ways of operating, particularly with regard to the transfer of information.

Accordingly, Revenu Québec is developing an electronic payroll service. This service involves the transmission of digital data directly from employers' payroll systems to Revenu Québec each pay period. This digital transmission would replace the multiple declarations, statements and forms that companies are currently required to produce.

This initiative should significantly reduce the administrative burden on employers. In addition, having more up-to-date information will allow Revenu Québec to improve the delivery of government services. To this end, consultations will be held with the various partners.

2.4 Supporting citizens and businesses

The digital transformation initiated by Revenu Québec is generating an increase in technical support needs to help taxpayers use the new services.

Thus, the agency plans to put in place an experienced and versatile support team to assist citizens, particularly the most vulnerable, as well as businesses, so that they can fully benefit from the new digital services.

Citizens and businesses will have access to support that will help them meet their tax obligations more easily using user-friendly and secure online services. This project will benefit both individuals and businesses.

2.5 Consolidating government debt collection activities

The international trend in government collection activities is to consolidate recovery activities within the organizations responsible for tax administration, which promotes the sound management of public funds and facilitates the delivery of quality services to citizens and businesses.

This is why the government plans to consolidate government debt collection activities within Revenu Québec. The agency has a strong expertise in this field since tax collection is an integral part of its mission.

This new approach will not only result in efficiencies for the government, but will also support departments and bodies in their collection activities and increase equity in government debt collection. It will also allow other departments and bodies to refocus their activities on their missions.

In order to set in motion the various activities related to this measure, Revenu Québec has been granted funding of \$14.1 million over five years.

Revenu Québec has committed to large-scale modernization with its VISION project, which seeks to modernize collection activities as one of its major initiatives. The consolidation of government debt collection activities will align with this project.

TABLE B.3

Financial impact of the initiatives to upgrade Revenu Québec's service delivery (millions of dollars)

	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	Total
Continuing the implementation of project VISION	-2.2	-6.6	-12.6	-22.1	-19.3	-62.8
Consolidating government debt collection activities	-2.7	-2.8	-2.8	-2.9	-2.9	-14.1
TOTAL	-4.9	-9.4	-15.4	-25.0	-22.2	-76.9

Note: The amounts will be drawn from the Tax Administration Fund.

3. STEPPING UP THE FIGHT AGAINST SMUGGLING AND ECONOMIC CRIME

In order to step up the fight against smuggling and economic crime, the government is putting in place targeted measures in response to specific issues. These measures aim to maintain the effectiveness of interventions against these illegal activities by adapting them to new realities.

3.1 Increasing funding for initiatives concerning revenues of and fraud against the government

For many years, the Québec government has supported several initiatives aimed at countering tax evasion, tax avoidance and fraud against the government. To continue its efforts, it is increasing funding for the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government by \$8 million starting in 2023-2024.

This increase will allow, among other things:

- focusing on prevention in the construction sector;
- boosting efforts to counter tobacco smuggling activities;
- stepping up the fight against economic crime involving cryptoassets;
- maximizing the recovery of criminal assets.

<h4>Role of the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government</h4>

<p>The Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government allows the Ministère des Finances to fund a variety of initiatives to combat tax evasion, unreported work and fraud against the government.</p>
--

<p>Partner government departments and bodies involved in this fight receive funding each year from the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government.</p>

<p>The effectiveness of their interventions is based on their acting in a concerted manner, drawing on the expertise of other committee members, which varies according to the functions, responsibilities and powers assigned to them.</p>

<p>The partners' coordinated work makes it possible to:</p>

- | |
|---|
| <ul style="list-style-type: none"> — establish policy directions in the fight against crime and offences; — identify key areas for investigative unit interventions; — improve information sharing among the partners. |
|---|

3.2 Stepping up efforts to counter tobacco smuggling activities

On February 8, the government announced a specific tobacco tax increase of \$8 per carton of 200 cigarettes to continue its tobacco control efforts.

In order to boost efforts to counter tobacco smuggling activities, the Québec government is injecting additional funds with a view to:

- increasing the police presence to intensify pressure on smugglers;
- improving the planning of investigations and expediting the processing and analysis of evidence to increase the effectiveness of investigations.

3.3 Stepping up the fight against economic crime involving cryptoassets

Economic crime investigations involving cryptoassets are conducted in an ever-changing technological environment. The investigations therefore require specialized resources.

The use of new IT tools and the recent increase in the number of staff at the Autorité des marchés financiers assigned to these investigations make it possible to better address this issue.

In addition, the number of reports made to the Autorité des marchés financiers that involve some form of cryptoassets is up sharply.

- While there were fewer than 25 such reports in 2020, the Autorité des marchés financiers reports that the number grew to nearly 1 000 in 2022.

In order to step up the fight against economic crime involving cryptoassets, additional funding is provided starting in 2023-2024 in order to:

- improve the quality of digital evidence;
- have better information technology expertise;
- detect fraud schemes early on so as to intervene more quickly to stop them.

3.4 Maximizing the recovery of criminal assets

Criminal asset recovery focuses mainly on removing from offenders property used in the commission of crimes or acquired as a result of crimes to deter them from committing further offences.

The Sûreté du Québec has set up a team dedicated to the recovery of criminal assets and other police forces are being trained so that the investigations carried out are more effective in blocking, seizing and confiscating criminally tainted property. These initiatives are already having a significant positive impact on cases referred to the Director of Criminal and Penal Prosecutions.

In order to maximize the recovery of these assets, the government will increase funding to the Director of Criminal and Penal Prosecutions to provide new resources for this task. In addition to increasing government revenues, this measure will:

- remove some of criminals' personal assets to prevent them from financing new illicit activities, and remove from circulation property used in the commission of crimes to prevent its reuse for illicit purposes;
- return more money, in particular to the fund dedicated to assistance for persons who are victims of criminal offences and to community-based crime prevention organizations, as provided for in the order on sharing the proceeds of crime.

3.5 Increasing penalties for alcohol smuggling

Some alcohol smuggling schemes have become more prevalent in recent years, such as those involving shipping and resale in the Nord-du-Québec region or home delivery.

In order to make police responses more effective and to further deter repeat offences, the government will propose amendments to the *Act respecting offences relating to alcoholic beverages* to:

- increase the amounts of certain fines set out in the Act;
- stipulate that offenders are responsible for the costs associated with seized vehicles.

TABLE B.4

Financial impact of the measures to step up the fight against smuggling and economic crime
(millions of dollars)

	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	Total
Increasing funding for initiatives concerning revenues of and fraud against the government	-8.0	-8.0	-8.0	-8.0	-8.0	-40.0
TOTAL	-8.0	-8.0	-8.0	-8.0	-8.0	-40.0

Note: The appropriations will be granted to the Ministère des Finances du Québec for the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government. For 2023-2024, the amounts provided for will be drawn from the Contingency Fund.

4. FOLLOWING UP ON ACTIONS TAKEN TO COMBAT TAX EVASION AND FRAUD AGAINST THE GOVERNMENT

The government has implemented various initiatives to promote the integrity of the tax system, foster healthy competition, and combat fraud against the government. These initiatives are based on concerted actions by various government departments and bodies.

In 2022-2023, the government funded concerted actions to combat:

- unreported work in the construction sector;
- tobacco, cannabis and alcohol smuggling;
- economic and financial crime and fraud against the government.

4.1 The fight against unreported work in the construction sector (ACCES construction)

The construction industry is one of the largest economic sectors in Québec. With the high demand for work and the substantial investments made in construction in recent years, this sector is more at risk of being affected by tax evasion and unreported work.

ACCES² construction³ is a group of government departments and bodies working together to combat tax evasion and unreported work in the construction industry. Through joint site visits and information exchange, the partners are working to ensure greater compliance in this industry.

The various activities allow the detection and suppression of complex tax evasion and unreported work schemes that not only deprive the government of revenues due to it, but also deprive workers of their rights and social benefits, while leading to unfair competition.

² Actions concertées pour contrer les économies souterraines (concerted actions to counter the underground economy).

³ ACCES construction brings together the Commission de la construction du Québec, the Régie du bâtiment du Québec, the Commission des normes, de l'équité, de la santé et de la sécurité du travail, the Registraire des entreprises du Québec, the Autorité des marchés publics, Revenu Québec, the Ministère du Travail, the Director of Criminal and Penal Prosecutions and the Ministère des Finances du Québec.

Examples of interventions by ACCES construction

Prevention and support on construction sites

Following a report by a worker about the non-compliance with collective agreements governing the construction industry, the Commission de la construction du Québec (CCQ) and the Commission des B.20orms, de l'équité, de la santé et de la sécurité du travail (CNESST) proceeded with joint audit activities of the employer in question.

These audits revealed several irregularities with respect to regulations governing the industry and to labour standards. The offending employer was guided by the CCQ, with the result that non-compliant situations were regularized without resorting to coercive measures.

Also, given the presence of many foreign workers, the Ministère de l'Immigration, de la Francisation et de l'Intégration and the Immigrant Workers Centre became involved to provide them with support. Foreign workers who do not have the right to work were able to correct their situation, allowing them to benefit from the same rights and fulfill the same obligations as all workers in Québec.

Detection of unreported work

Following reports about a company in the construction sector in the Capitale-Nationale region, the CNESST intelligence unit confirmed that the company had a high potential for non-compliance.

The CNESST then carried out a compliance intervention with the company, showing that it possibly employed up to 30 workers without being registered as a regular employer with the organization. In addition, it was found that workers were paid largely in cash or by bank transfer, all without records of employment.

The CNESST has issued total assessments of approximately \$500 000 to this employer.

Sources : Commission de la construction du Québec and the Commission des normes, de l'équité, de la santé et de la sécurité du travail.

4.2 The fight against smuggling

Smuggling activities are the result of, in particular, illegal production, transportation and sale of goods on the black market so that the offender can avoid paying the applicable taxes.

To counter this practice, the government has set up various strike forces comprising the police forces and government departments and bodies involved in the fight against tobacco, cannabis and alcohol smuggling.

❑ The fight against the illicit tobacco trade (ACCES tobacco)

ACCES tobacco,⁴ whose effectiveness is recognized nationally and internationally, is dedicated to the fight against tobacco smuggling.

— Its actions aim to dismantle smuggling networks, recover the tax losses linked to the illicit trade in tobacco and thus increase revenue from the specific tax on tobacco products.

The activities of ACCES tobacco partners are targeted at countering all illicit activities, from the supply of raw materials to the sale of products to consumers.

The presence of ACCES tobacco will prevent an increase in smuggling activities following the specific tax increase on tobacco products announced on February 8, 2023.

Example of an intervention by ACCES tobacco

In August 2022, the Service de police de la Ville de Montréal dismantled a major shisha tobacco smuggling ring following a two-month investigation.

Searches conducted at two warehouses, three homes and one business resulted in the seizure of over 1 600 kilograms of shisha tobacco, four vehicles and nearly \$50 000.

Four individuals will be charged under the *Tobacco Tax Act*.

Sources : Ministère de la Sécurité publique and Service de police de la Ville de Montréal.

⁴ ACCES tobacco brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, other Québec police forces represented by the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Director of Criminal and Penal Prosecutions, the Ministère de la Santé et des Services sociaux, the Ministère des Finances du Québec, as well as the Royal Canadian Mounted Police, the Canada Revenue Agency and the Canada Border Services Agency.

**❑ The fight against the illicit cannabis trade
(ACCES cannabis)**

ACCES cannabis⁵ was implemented in 2018 and helps combat cannabis smuggling across Québec at every stage of the supply chain, from illegal production to illicit trade.

The actions of the ACCES cannabis partners help combat the schemes used by smugglers and put an end to their operations by conducting investigations, thereby:

- reducing the availability of illegal cannabis to youth under 21;
- directing consumers aged 21 and over to the safer legal market.

The funding granted is used to deploy investigative teams across Québec and to coordinate activities between police forces and other ACCES cannabis partners.

Examples of interventions by ACCES cannabis
<p>Project RAMIFICATION</p> <p>Project RAMIFICATION, conducted by the Sûreté du Québec, targeted a network linked to a criminal organization involved in the production, sale and distribution of illicit cannabis. The investigation was triggered following a report from Hydro-Québec, which alerted the Sûreté du Québec to a potential cannabis grow op after doing an analysis of electricity consumption.</p> <p>The project resulted in the execution of seven arrest warrants and 19 searches. These searches led to the seizure of more than 410 kilograms of cannabis, nearly 1 190 cannabis plants, more than \$260 000, five weapons and contraband cigarettes. In addition, two buildings and a number of vehicles valued at close to \$540 000 were subject to restraint orders or seizures of offence-related property.</p> <p>Investigation by the Service de police de Laval</p> <p>This investigation, carried out by the Service de police de Laval, led to the dismantling of two large-scale cannabis operations in Laval. While one of the two addresses had a medical cannabis registration certificate issued by Health Canada, the investigation established that the production greatly exceeded the number of plants allowed by the certificate.</p> <p>The searches resulted in the seizure of more than 2 270 cannabis plants, nearly 70 kilograms of cannabis resin, more than 1 300 kilograms of dried cannabis and \$500 000 worth of production equipment.</p>

Sources: Ministère de la Sécurité publique, Sûreté du Québec and Service de police de Laval.

⁵ ACCES cannabis brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, the Service de police de la Ville de Québec, Québec's other police forces represented by the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Director of Criminal and Penal Prosecutions, the Ministère de la Santé et des Services sociaux, the Société québécoise du cannabis, and the Ministère des Finances du Québec.

❑ **The fight against the illicit trade in alcoholic beverages (ACCES alcohol)**

ACCES alcohol⁶ allows for targeted actions to combat the illicit trade and illegal procurement of alcoholic beverages.

These actions, carried out by various police forces across Québec, target the entire supply chain and are divided into two main types of intervention:

- inspection of establishments holding a liquor permit for consumption on the premises, which allows the detection of any offences involving the trade in alcoholic beverages;
- conduct of investigations to detect illegal schemes for the production, distribution and sale of alcoholic beverages.

These interventions ensure public safety, guarantee fair and healthy competition in the alcoholic beverage trade and reduce revenue losses for the government.

Examples of interventions by ACCES alcohol

Investigation by the Sûreté du Québec

An investigation by the Sûreté du Québec, conducted in partnership with the Nunavik Police Service and Canada Post, resulted in two arrests in connection with a scheme to send alcohol on a massive scale to communities in the Nord-du-Québec region. The offenders hid vodka in cans of maple syrup, which they then shipped via Canada Post. The Service de police du Nunavik found and seized the cans. Four searches were then conducted, resulting in the seizure of more than 200 litres of illicit alcoholic beverages and narcotics.

Investigation by the Service de police de l'agglomération de Longueuil

In November 2022, the Service de police de l'agglomération de Longueuil searched the home and two vehicles of an individual who was importing alcohol from England and selling it through social networks. The operation resulted in the seizure of 350 bottles of whisky, valued at over \$100 000. The individual was charged with the possession, transportation and illegal sale of alcohol.

Sources: Ministère de la Sécurité publique, Sûreté du Québec and Service de police de l'agglomération de Longueuil.

⁶ ACCES alcohol brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, the other Québec police forces represented by the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Director of Criminal and Penal Prosecutions, the Régie des alcools, des courses et des jeux, the Société des alcools du Québec and the Ministère des Finances du Québec.

4.3 The fight against economic and financial crime, and fraud against the government

Investigations into economic and financial crime, fraud against the government and organized networks of unreported work are complex and require high-level expertise.

To carry out these investigations, the government relies on the concerted actions of ACCEF partners⁷ and the Forum contre la fraude envers l'État.⁸

- These partners pool their complementary expertise to more effectively combat these types of crime, which cause significant losses for the Québec government.

❑ The fight against economic and financial crime (ACCEF)

ACCEF partners are tasked with detecting and repressing organized economic and financial crime. Their extensive expertise allows them to effectively combat:

- complex tax evasion and money laundering schemes;
- crimes committed in the financial markets;
- laundering of the proceeds of crime.

Example of an intervention by ACCEF

The Axes Primes investigation, carried out by the Autorité des marchés financiers, revealed that investors were solicited by phone to invest in the foreign exchange market or in the stock market.

Investors were asked to provide personal information and access to their computers. They also received high-pressure calls to get them to entrust additional amounts.

The amounts invested were directed to bank accounts linked to an individual in Québec and then redirected to foreign bank accounts or to cryptocurrency trading platforms. More than \$250 000 flowed through the individual's accounts and over \$1 million flowed through cryptocurrency accounts, mainly in Africa and the Philippines. Nearly 200 potential investors were involved.

In May 2022, the Financial Markets Administrative Tribunal issued various orders regarding the activities of the individual under investigation.

Source: Autorité des marchés financiers.

⁷ Actions concertées contre les crimes économiques et financiers (concerted actions against economic and financial crime). ACCEF brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, the Ministère de la Sécurité publique, Revenu Québec, the Director of Criminal and Penal Prosecutions, the Autorité des marchés financiers, and the Ministère des Finances du Québec.

⁸ Coordinated by the Ministère de la Sécurité publique, the forum consists of some 15 partner government departments and bodies involved in combatting fraud against the government.

❑ **Combatting fraud against the government**

Fraud is rapidly evolving and has negative consequences for victims and their families, businesses and the government. Fraud schemes against the government can result in significant losses to the government and inequity for citizens and businesses.

The Sûreté du Québec has a specialized team tasked with carrying out investigations with departments and bodies that are victims of this type of crime. This unit is responsible for:

- coordinating criminal and penal investigations;
- supporting the training of investigators within government departments and bodies;
- providing technological support for complex investigations.

In addition, since fraud against the government often involves the use of falsified or counterfeit documents, the government departments and bodies that are victims of this type of crime can count on the expertise of the Laboratoire de sciences judiciaires et de médecine légale. The latter:

- provides training to quickly spot fake IDs;
- examines disputed documents to establish their authenticity or to determine whether they are falsified or counterfeit.

Example of an intervention in combatting fraud against the government
<p>The PRÉTEXTE investigation, conducted by the Sûreté du Québec, targeted three criminal organizations involved in making and trafficking false documents used to fraudulently obtain driver's licences.</p> <p>In total, 2 500 people allegedly took advantage of this scheme to avoid complying with the laws and regulations of the Société de l'assurance automobile du Québec.</p> <p>During the search, \$450 000 in cash was seized, as well as several fake driver's licences, equipment, cell phones and computer hardware.</p> <p>Five suspects appeared in court in 2022 in connection with this investigation.</p>

Sources: Ministère de la Sécurité publique and Sûreté du Québec.

❑ The fight against organized networks of unreported work

The Ministère de l'Emploi et de la Solidarité sociale and its partners⁹ work together to combat criminal networks linked to employment agencies.

- The actions taken help detect these networks, recover money owed to the government, take deterrent action and help people who have performed unreported work enter the legal labour market.

The people who operate these networks usually recruit vulnerable workers, often newcomers, and generally pay them in cash, thereby depriving these workers of the protections and employee benefits provided for in Québec.

- These fraudulent agencies also neglect to report their income, which generates significant tax losses for the Québec government.

Example of an intervention in the fight against organized networks of unreported work
<p>The SURF investigation, conducted by the Ministère de l'Emploi et de la Solidarité sociale, concerned fraud involving five suspects and four employment agencies.</p> <p>The scheme involved employing recipients of last-resort financial assistance and paying them in cash without reporting their compensation.</p> <p>Information gathered to date has identified two clients involved since 2017, as well as 10 individuals improperly receiving or having improperly received last-resort financial assistance.</p>

Source: Ministère de l'Emploi et de la Solidarité sociale.

⁹ These include, among others, the Commission des normes, de l'équité, de la santé et de la sécurité du travail, Revenu Québec and the Sûreté du Québec.

4.4 Return on and funding for concerted actions

To enable government departments and bodies to carry out their concerted activities to combat tax evasion and fraud against the government, the Ministère des Finances grants them funding from the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government and from the Fund to Combat Addiction.

- The government departments and bodies benefit from the expertise of other committee members, establish policy directions, analyze certain legal aspects and improve information sharing.

❑ Results of concerted actions to combat tax evasion and fraud against the government

In 2021-2022, the concerted actions to combat tax evasion and fraud against the government yielded a total return of more than \$550 million.

- The return per dollar invested in projects funded was \$7.32.

TABLE B.5

Total return of concerted actions to combat tax evasion and fraud against the government

(millions of dollars, unless otherwise indicated)

	2021-2022
ACCES construction	203.4
ACCES tobacco	172.0
ACCES cannabis	37.6
ACCESS alcohol	87.8
ACCEF and combatting fraud against the government ⁽¹⁾	50.0
TOTAL	550.8
Funding granted to partners ⁽²⁾	75.3
RETURN PER DOLLAR INVESTED (IN DOLLARS)	7.32

(1) This measure includes the fight against organized networks of unreported work.

(2) Some projects have objectives that do not translate into financial return. The funding of these projects is excluded from the amount used to calculate the return per dollar invested.

❑ Funding for concerted actions

In 2022-2023, the Ministère des Finances du Québec allocated \$82.5 million to fund concerted actions to fight tax evasion and fraud against the government.

TABLE B.6

Funding for concerted actions to combat tax evasion and fraud against the government in 2022-2023 (millions of dollars)

	Provision ⁽¹⁾	Fund ⁽²⁾	Total
ACCES construction	10.0	—	10.0
ACCES tobacco	9.1	7.7	16.8
ACCES cannabis	0.1	26.3	26.4
ACCESS alcohol	0.1	8.3	8.4
ACCEF and combatting fraud against the government ⁽³⁾	20.0	—	20.0
Other initiatives	0.9	—	0.9
TOTAL	40.2	42.3	82.5

(1) This is the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government.

(2) This is the Addiction Fund.

(3) Includes the fight against organized networks of unreported work.

Section C

REPORT ON THE APPLICATION OF THE
LEGISLATION RESPECTING A BALANCED BUDGET,
DEBT REDUCTION AND THE GENERATIONS FUND

1. *Balanced Budget Act* C.3

1.1 Budgetary balance within the meaning
of the *Balanced Budget Act* C.5

1.2 Stabilization reserve..... C.8

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the Generations Fund* C.9

2.1 Debt reduction..... C.9

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APPENDIX: Current provisions of laws C.15

1. ***BALANCED BUDGET ACT***

Pursuant to the *Balanced Budget Act*, the Minister of Finance must report to the National Assembly, in the budget speech, on the achievement of the objectives of the Act and any variance recorded.

The purpose of the *Balanced Budget Act* is to oblige the government to maintain a balanced budget and table a balanced financial framework. In general, the Act specifies the calculation of the budgetary balance, establishes a stabilization reserve and sets out the applicable rules in the case of a surplus or an overrun.

— Current provisions of the *Balanced Budget Act* are set out in the Appendix.

Lifting of the suspension and modernization of the *Balanced Budget Act*

Lifting of the suspension of certain effects of the Act

The *Balanced Budget Act* was amended by Bill 17,¹ assented to on February 24, 2022, which temporarily suspends certain effects of the Act from 2021-2022 until the end of the fiscal year determined by the Minister, that is, no later than the fiscal 2023-2024 Budget Speech.

The desired effects of the suspension are:

- the prohibition of an actual or forecast budgetary deficit;
- the tabling of a plan to restore fiscal balance;
- the obligation to implement offsetting measures for overruns.

In order to meet the Act's requirements, the Minister of Finance is lifting the suspension of these effects as of the end of fiscal 2022-2023.

As a result, the financial framework of Budget 2023-2024 includes a plan to restore a balanced budget by 2027-2028. The plan presented, whereby the deficit will be limited to \$4 billion in 2023-2024, and thereafter progressively reduced by \$1 billion per year until fiscal balance is achieved, constitutes the government's plan for restoring fiscal balance.

- As such, the fiscal framework calls for a \$1-billion decrease in the deficit in 2023-2024 compared with 2022-2023. Considering the changing revenue outlook, the expenditure level has therefore been determined so as to reduce the deficit in accordance with the requirements of the Act.

Modernization of the *Balanced Budget Act*

Since its enactment in 1996, the *Balanced Budget Act* has been amended on several occasions, essentially to suspend some of its effects during periods of recession or economic instability.

Since experience has revealed the difficulties of enforcing the Act in a context of major economic slowdown, Budget 2023-2024 provides an opportunity to modernize certain of its provisions.

The government wishes specifically to:

- improve fiscal flexibility in determining the fiscal balance;
- update the rules requiring the tabling of a plan to offset budget overruns, including the threshold and timeframe for when such a plan is required;
- revise the rules governing the execution of this plan, including the implementation of measures to offset overruns and the time period for offsetting overruns;
- abolish the stabilization reserve.

Proposed details will be specified at a later date.

¹ An Act respecting the implementation of certain provisions of the Budget Speech of 25 March 2021 and amending other provisions (S.Q. 2022, c. 3).

1.1 **Budgetary balance within the meaning of the *Balanced Budget Act***

The objectives of the *Balanced Budget Act* are achieved if the budgetary balance, calculated in accordance with the Act, is zero or positive.¹

- The budgetary balance corresponds essentially to the surplus or deficit presented in the Public Accounts (book balance) reduced by the amount of revenues dedicated to the Generations Fund and adjusted to take certain accounting changes into consideration, if applicable.

A balanced budget as defined in the Act was maintained in 2021-2022 through the use of \$772 million from the stabilization reserve.

For 2022-2023, the budgetary balance within the meaning of the Act is in deficit by \$4.6 billion after the use of \$449 million from the stabilization reserve.

- The stabilization reserve was fully used for fiscal 2022-2023.

The Balanced Budget Act was amended in order to suspend the obligation to achieve a balanced budget in 2022-2023.

The budgetary balance is in deficit by \$4.0 billion for 2023-2024, and remains in deficit for the following three years. Therefore, the financial framework in the 2023-2024 budget presents a fiscal plan to progressively eliminate the deficit within five years.

¹ The budgetary data for 2022-2023 and subsequent years presented in this section are forecasts.

❑ The plan for restoring fiscal balance

In early 2020, the COVID-19 pandemic caused a shock of unprecedented magnitude, sending the economy into a short but deep recession. Global economic activity quickly began to recover in a synchronized fashion, but this generated inflationary pressures that caused a quick and substantial interest rates hike.

Despite this economic instability, the government has maintained adequate funding for the government’s main missions, thereby generating deficits. With the move to a more stable economic environment, Budget 2023-2024 is an opportunity for the government to table its plan for restoring fiscal balance.

According to this plan, the deficit will be limited to \$4.0 billion in 2023-2024, and will thereafter be progressively reduced by \$1.0 billion per year until fiscal balance is achieved in 2027-2028.

- The fiscal framework calls for a \$1.0-billion decrease in the deficit in 2023-2024 compared with 2022-2023. Considering the changing budgetary outlook concerning revenue, the expenditure level has been determined so as to reduce the deficit in accordance with the requirements of the Act.

CHART C.1

Budgetary balance of the plan for restoring fiscal balance
(billions of dollars)

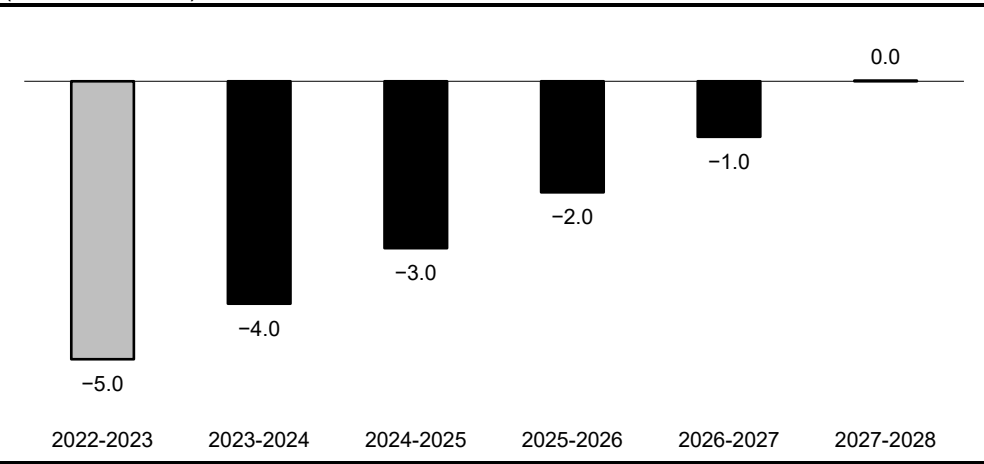


TABLE C.1

Budgetary balance within the meaning of the *Balanced Budget Act*
(millions of dollars)

Fiscal year	Surplus (deficit) within the meaning of the Public Accounts ⁽¹⁾	Revenues dedicated to the Generations Fund	Accounting and other changes ⁽²⁾	Budgetary balance within the meaning of the Act	Stabilization reserve		Budgetary balance within the meaning of the Act after reserve ⁽³⁾
					Allocations	Uses	
2012-2013	-3 141	-961	2 502 ⁽⁴⁾	-1 600	—	—	-1 600 ⁽⁵⁾
2013-2014	-2 100	-1 121	397	-2 824	—	—	-2 824 ⁽⁵⁾
2014-2015	-534	-1 279	1 088	-725	—	—	-725 ⁽⁵⁾
2015-2016	3 456	-1 453	188	2 191	-2 191	—	—
2016-2017	4 147	-2 001	215	2 361	-2 361	—	—
2017-2018	3 014	-2 293	1 901	2 622	-2 622	—	—
2018-2019	7 890	-3 477	390	4 803	-4 803	—	—
2019-2020	2 083	-2 606	527	4	-4	—	—
2020-2021	-4 226	-3 313	-3 221	-10 760	—	10 760	—
2021-2022	2 845	-3 617	—	-772	—	772	—
2022-2023	-1 670	-3 351	—	-5 021	—	449	-4 572 ⁽⁶⁾
2023-2024	-1 625	-2 373	—	-3 998	—	—	-3 998

(1) The annual surpluses (deficits) were restated to take into account the change in the application of the accounting standard respecting transfer payments.

(2) In order to comply with the provisions of the *Balanced Budget Act*, adjustments to the restated annual surpluses and deficits in the Public Accounts are required to establish the budgetary balance. Adjustments were made to take into account the change in the application of the accounting standard respecting transfer payments and its impact on the accumulated deficit in 2020-2021.

(3) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account allocations to the stabilization reserve and uses of it in order to maintain a balanced budget or reduce the budgetary deficit.

(4) The *Balanced Budget Act* stipulates the exclusion of Hydro-Québec's exceptional loss of \$1 876 million for the closure of the Gentilly-2 nuclear power plant from the calculation of the budgetary balance for fiscal 2012-2013.

(5) The budgetary deficits of \$1.6 billion, \$2.8 billion and \$0.7 billion recorded for 2012-2013, 2013-2014 and 2014-2015, respectively, are allowed pursuant to the *Balanced Budget Act*.

(6) The *Balanced Budget Act* was amended in order to suspend the obligation to achieve a balanced budget from March 25, 2021 to March 31, 2023.

1.2 Stabilization reserve

Under the *Balanced Budget Act*, a recorded surplus, that is, a budgetary balance that is greater than zero, must be allocated to the stabilization reserve.

This reserve is a budgetary tool that was established to facilitate multi-year planning of the government’s financial framework.

The balance of the stabilization reserve is adjusted on the basis of recorded surpluses allocated to the reserve or sums used from the reserve for each fiscal year.

The reserve acts like a counter made up of surpluses achieved, but it does not consist of surplus cash, as generated surpluses are used to reduce the debt. In other words, the stabilization reserve is not money in the bank. Its use gives rise to an increase in the debt.

Taking into account the budgetary deficits in 2020-2021 and 2021-2022, and a deficit greater than the balance of the stabilization reserve in 2022-2023, the balance of the stabilization reserve will be zero as at March 31, 2023.

TABLE C.2

Operations of the stabilization reserve (millions of dollars)

Fiscal year	Balance, beginning of year	Allocations	Uses		Balance, end of year
			Balanced budget	Generations Fund	
2015-2016	—	2 191	—	—	2 191
2016-2017	2 191	2 361	—	—	4 552
2017-2018	4 552	2 622	—	—	7 174
2018-2019	7 174	4 803	—	—	11 977
2019-2020	11 977	4	—	—	11 981
2020-2021	11 981	—	-10 760	—	1 221
2021-2022	1 221	—	-772	—	449
2022-2023	449	—	-449	—	—
2023-2024	—	—	—	—	—

2. **ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND**

2.1 **Debt reduction**

The *Act to reduce the debt and establish the Generations Fund* was adopted in 2006. By reducing the debt burden, it aims to ensure long-term funding for the government's main missions as well as a prosperous tomorrow for future generations.

Since 2010, the Act stipulates that for fiscal 2025-2026, gross debt must not exceed 45% of GDP, while debt representing accumulated deficits must not exceed 17% of GDP. These targets were set as a result of the 2008 financial crisis and changes to government accounting, which made it impossible to reach the targets established in 2006.²

As at March 31, 2023, the gross debt-to-GDP ratio will stand at 40.2%, which is below the 45% objective. The accumulated deficit debt-to-GDP ratio will stand at 20.5%.

Québec has made remarkable progress in reducing its debt load in recent decades, but remains one of the most indebted provinces.

Reducing the debt burden remains a priority for the government.

□ The new debt reduction objective

As at March 31, 2023, net debt will stand at 37.4% of GDP. The government is announcing that it intends to gradually reduce the net debt to within a range of 27.5% of GDP to 32.5% of GDP within the next 15 years, that is, by fiscal year 2037-2038.³

— The median net debt reduction target will therefore stand at 30% of GDP.

Based on this target, Québec's net debt burden will therefore gradually move toward the current average net debt of the provinces (31% of GDP as at March 31, 2022).

The government also aims for the net debt burden to be 33% of GDP by 2032-2033. This is an intermediate target.

At a time when it is difficult to forecast how the economy will change over the long term, the government has decided to provide an interval for these two targets. This will allow it to respond to negative economic shocks or to increase investment, if necessary, in public infrastructure.

² The current provisions of the *Act to reduce the debt and establish the Generations Fund* are set out in the Appendix.

³ Section I of the *Québec Budget Plan – March 2023*, "The Québec Government's Debt," provides detailed information on the Québec government's debt.

TABLE C.3

The new debt reduction targets

Net debt by 2032-2033 (intermediate target)	33% of GDP ($\pm 2.5\%$ of GDP)
Net debt by 2037-2038	30% of GDP ($\pm 2.5\%$ of GDP)

Changes to the *Act to reduce the debt and establish the Generations Fund* will be proposed in this regard.

Accountability based on net debt
<p>Like Ontario and other provinces, Québec will focus its reporting on net debt, which is a concept also used by the OECD and the IMF. The net debt:</p> <ul style="list-style-type: none">— takes into account the government's borrowings arising from substantial capital investments;— subtracts financial assets that will ultimately be used to reduce the debt on financial markets;— is readily comparable from one province to another. <p>However, information on all concepts of debt will continue to be presented to meet the needs of the various users of the budget documents.</p>

2.2 Generations Fund

❑ Deposits in the Generations Fund in 2022-2023

In 2022-2023, revenue totalling \$3.4 billion will be dedicated to the Generations Fund. The \$94 million downward adjustment from the March 2022 budget is mainly the result of lower-than-anticipated realized investment income, partly offset by the rise in mining revenues.

— Realized investment income was adjusted downward because of realized gains that were lower than anticipated.

TABLE C.4

Generations Fund – 2022-2023

(millions of dollars)

	March 2022 ⁽¹⁾		March 2023
	2022-2023	Adjustments	2022-2023
Book value, beginning of year⁽²⁾	15 669	160	15 829
Dedicated revenues			
Water-power royalties			
Hydro-Québec	763	22	785
Private producers	107	5	112
Subtotal	870	27	897
Indexation of the price of heritage electricity	535	9	544
Additional contribution from Hydro-Québec	215	—	215
Mining revenues	484	275	759
Specific tax on alcoholic beverages	500	—	500
Unclaimed property	55	23	78
Investment income ⁽³⁾	786	-428	358
Total dedicated revenues	3 445	-94	3 351
BOOK VALUE, END OF YEAR	19 114	66	19 180

(1) This is the March 2022 budget forecast.

(2) For information purposes, as at December 31, 2022, the fair value of the Generations Fund was \$17.8 billion, \$0.3 billion less than its book value.

(3) The investment income of the Generations Fund corresponds to realized investment income (interest income, dividends, gains on the disposal of assets, etc.). Therefore, the forecast may be adjusted upward or downward according to when the gains or losses are actually realized.

❑ Revenues that will be dedicated to the Generations Fund from 2023-2024

The Generations Fund is an important pillar of the debt reduction strategy. Just as it did when the Generations Fund was established in 2006, the government will continue to bank on the wealth of Québec's hydroelectricity.

As of 2023-2024, three sources of revenue will be dedicated to the Generations Fund:

- water-power royalties, which are paid by Hydro-Québec and private hydroelectricity producers;
- an additional contribution from Hydro-Québec, which will be set at \$650 million per year;
 - This contribution will be taken from the dividend paid by Hydro-Québec to the government. It will have no impact on hydroelectricity rates.
- income generated by the investment of the sums making up the Generations Fund.⁴

Deposits in the Generations Fund will not be subject to an annual cap.

Changes to the *Act to reduce the debt and establish the Generations Fund* will be proposed in this regard.

From 2023-2024 to 2027-2028, deposits in the Generations Fund are expected to average \$2.6 billion per year. This is a higher amount than the average of the last 10 years. From 2013-2014 to 2022-2023, revenues dedicated to the Generations Fund averaged \$2.5 billion per year.

- In 2023-2024, revenues totalling \$2.4 billion will be dedicated to the Generations Fund.⁵ They will gradually increase to reach \$2.8 billion in 2027-2028 and nearly \$5.0 billion in 2037-2038.
- Without these changes, revenues dedicated to the Generations Fund would have amounted to \$3.9 billion in 2023-2024 and \$5.4 billion in 2027-2028.

⁴ Revenues resulting from the indexation of the price of heritage electricity, mining revenues, an annual sum of \$500 million from the specific tax on alcoholic beverages and unclaimed property will no longer be deposited in the Generations Fund. In addition, gifts, legacies and other contributions received by the Minister of Finance may continue to be deposited in the Generations Fund.

⁵ The portion of the amounts provided for in the March 2022 budget that will not be deposited in the Generations Fund will be allocated to financing the 1-percentage-point reduction in the first two tax brackets as of 2023.

❑ Use of the Generations Fund to repay borrowings

As at March 31, 2023, the balance of the Generations Fund will amount to \$19.2 billion. The government is announcing that withdrawals of \$2.5 billion per year will be made in 2023-2024 and 2024-2025.⁶

These withdrawals will serve to reduce the financing program and alleviate debt service in the current context of high interest rates.⁷

The interest savings associated with these withdrawals are estimated at \$801 million over five years, that is, from 2023-2024 to 2027-2028.

TABLE C.5

Generations Fund (millions of dollars)

	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Book value, beginning of year⁽¹⁾	19 180	19 053	18 940	21 464	24 171
Dedicated revenues					
Water-power royalties					
Hydro-Québec	825	845	868	932	931
Private producers	109	109	112	114	116
Subtotal	934	954	980	1 046	1 047
Additional contribution from Hydro-Québec	650	650	650	650	650
Investment income ⁽²⁾	789	783	894	1 011	1 136
Total dedicated revenues	2 373	2 387	2 524	2 707	2 833
Use of the Generations Fund to repay borrowings	-2 500	-2 500	—	—	—
BOOK VALUE, END OF YEAR	19 053	18 940	21 464	24 171	27 004
As a % of net debt	8.9	8.6	9.5	10.5	11.6
As a % of GDP	3.4	3.2	3.5	3.8	4.1

(1) For information purposes, as at December 31, 2022, the fair value of the Generations Fund was \$17.8 billion, \$0.3 billion less than its book value.

(2) The investment income of the Generations Fund corresponds to realized investment income (interest income, dividends, gains on the disposal of assets, etc.). Therefore, the forecast may be adjusted upward or downward according to when the gains or losses are actually realized. An annual return of 4.6% is expected, a rate based on six historic years.

⁶ Pursuant to the *Act to reduce the debt and establish the Generations Fund*, the Fund is used solely to pay down gross debt.

⁷ These withdrawals are presented in the government's financing program (page I.26 of the *Québec Budget Plan – March 2023*).

APPENDIX: CURRENT PROVISIONS OF LAWS

❑ ***Balanced Budget Act***

The *Balanced Budget Act* (CQLR, chapter E-12.00001) was passed unanimously by the National Assembly on December 19, 1996. The Act stipulates that the government must table balanced budget estimates and sets out the applicable rules in the case of a surplus or an overrun.

Under the *Balanced Budget Act*, if an overrun of less than \$1 billion is recorded for a fiscal year, the government must achieve an equivalent surplus in the next fiscal year.

The Act stipulates that the government may incur overruns for a period of more than one year, where such overruns total at least \$1 billion as a result of circumstances defined in the Act, namely, a disaster having a major impact on revenue or expenditure, a significant deterioration of economic conditions or a change in federal programs of transfer payments to the provinces that would substantially reduce transfer payments to the government.

If there is an overrun of at least \$1 billion, the Minister of Finance must report to the National Assembly on the circumstances justifying that the government incur such overruns. In addition, the Minister must present a financial plan allowing such overruns to be offset within a five-year period and apply offsetting measures covering at least \$1 billion as of the fiscal year in which such an overrun is anticipated, or the following year in the case where an overrun is recorded. He must offset at least 75% of any such overruns within the first four fiscal years of that period.

The Act also establishes a stabilization reserve in order to facilitate the government's multi-year budget planning and, subsidiarily, to allow sums to be deposited in the Generations Fund. Any surpluses recorded for a fiscal year are automatically allocated to this reserve whose main purpose is to maintain a balanced budget.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the objectives of the Act, their achievement and any variance recorded, and on the operations of the stabilization reserve.

❑ **Act to reduce the debt and establish the Generations Fund**

The *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter R-2.2.0.1) was passed on June 15, 2006. This statute established the Generations Fund, a fund dedicated exclusively to repaying the gross debt.

Since 2010, the Act stipulates that for fiscal 2025-2026, gross debt must not exceed 45% of GDP, and the debt representing accumulated deficits must not exceed 17% of GDP.

Under the Act's current provisions, which do not reflect the amendments planned in Budget 2023-2024, the Generations Fund is made up of the following sums drawn from sources of revenue dedicated to repaying the debt:

- water-power royalties paid by Hydro-Québec and private hydroelectricity producers;
- part of Hydro-Québec's earnings on the sale of electricity outside Québec as a result of its increased generating capacity;⁸
- revenues from the indexation of the price of heritage electricity since 2014;
- fees or charges for water withdrawal;⁸
- since 2015-2016, the total fees, duties, rentals and mining royalties provided for in the *Mining Tax Act* and the *Mining Act*. This amount is established once the duties allocated to the mining heritage and mining activity management components of the Natural Resources Fund have been subtracted;
- in 2014-2015 and 2015-2016, \$100 million per year, increasing to \$500 million per year as of 2016-2017, from the specific tax on alcoholic beverages;
- from 2017-2018 to 2043-2044, \$215 million per year from Hydro-Québec;
- sale of government assets, rights or securities;⁸
- unclaimed property administered by Revenu Québec;
- gifts, legacies and other contributions received by the Minister of Finance;
- income generated by the investment of the sums making up the Generations Fund.

⁸ A government order is required to set the portion of these amounts that must be allocated to the Generations Fund.

The Act allows the government to order that a part, which it establishes, of any sum that would otherwise have been attributed to the General Fund of the Consolidated Revenue Fund be allocated to the Generations Fund.

Similarly, that Act authorizes the government, subject to the provisions of the *Balanced Budget Act*, to use the stabilization reserve to deposit sums in the Generations Fund.

The sums constituting the Generations Fund are deposited with the Caisse de dépôt et placement du Québec and managed in accordance with an investment policy determined by the Minister of Finance, in collaboration with representatives of the Caisse.

The Act also stipulates that the Minister of Finance may take any sum from the Generations Fund and use it to repay the debt.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the evolution of the debt representing accumulated deficits and of the gross debt, on the sums making up the Generations Fund and on any sums used to repay the gross debt.

Section D

MEASURES REQUIRING LEGISLATIVE OR REGULATORY AMENDMENTS

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1. MEASURES REQUIRING LEGISLATIVE OR REGULATORY AMENDMENTS

Certain measures presented in the 2023-2024 budget documents require legislative or regulatory amendments that are not of a fiscal nature.

These amendments will be presented by the Minister of Finance in a bill aimed mainly at implementing certain provisions of the Budget Speech of March 21, 2023, or by the ministers responsible for the laws or regulations requiring amendments.

1.1 Modernizing the *Balanced Budget Act*

Amendments to the *Balanced Budget Act* (CQLR, chapter E-12.00001) will be proposed, in particular, to update the rules requiring the tabling of a deficit reduction plan and the rules governing its implementation.

The amendments will also include abolishing the stabilization reserve.

The details of this measure are presented in Section C, “Report on the Application of the Legislation Respecting a Balanced Budget, Debt Reduction and the Generations Fund,” of *Additional Information – March 2023*.

1.2 Adapting the Québec Pension Plan to the new realities of Quebecers

Following the end of the public consultation on the Québec Pension Plan (QPP) conducted by the Québec government in February 2023, measures are announced¹ to increase Quebecers’ short- and medium-term financial security and facilitate their retention in employment. Certain measures require legislative and regulatory amendments to be implemented.

Details of these measures are presented in Section B, “Growing Québec’s Wealth,” of the *Québec Budget Plan – March 2023*.

¹ The measure “Introduction of an option to stop paying QPP contributions for workers aged 65 years or older” is presented in Section A, “Additional Information on the Fiscal Measures,” of *Additional Information – March 2023*.

❑ **Increasing financial security and encouraging job retention for Quebecers**

To increase the financial security of workers aged 65 or over, amendments will be made to the QPP to introduce pension protection for these workers.

- Some people may choose to continue working part-time and therefore have a lower income at the end of their career. The protection will ensure that years of low earnings as of age 65 do not reduce the average earnings used to calculate their retirement pension.

In addition, the maximum retirement pension eligibility age will be increased from 70 to 72 years, as of January 1, 2024, to help workers improve their financial security.

- Currently, retirement pensions are enhanced by 0.7% for each month of postponement after age 65 until 70. Accordingly, raising the maximum eligibility age from 70 to 72 will allow for a further increase in the retirement pension.

Lastly, an adjustment mechanism will be introduced into the QPP additional plan in case of financial imbalance.

Amendments to the *Act respecting the Québec Pension Plan* (CQLR, chapter R-9), the *Regulation respecting contributions to the Québec Pension Plan* (CQLR, chapter R-9, r. 2) and the *Regulation respecting benefits* (CQLR, chapter R-9, r. 5) will be proposed to implement these measures.

❑ **Broadening the role of Retraite Québec**

The role of Retraite Québec will be broadened by mandating it to conduct research into the financial situation of retirees and the retirement system as a whole.

Recognition of this role will enable Retraite Québec to enter into data-sharing agreements that will consolidate its role as a retirement adviser. Implementing this initiative will require amendments to the *Act respecting Retraite Québec* (CQLR, chapter R-26.3).

1.3 Enhancing the Institut de la statistique du Québec's research data access services

Since June 17, 2019, the Institut de la statistique du Québec (ISQ) has made it easier for researchers working with public bodies to access data, particularly on the health care and education sectors, in a secure environment that ensures they remain confidential. Data held by other public bodies will also be accessible soon.

Amendments to the *Act respecting the Institut de la statistique du Québec* (CQLR, chapter I-13.011) will be proposed to allow employees of public bodies to use the ISQ's research data access services in relation to their organization's data. These changes will allow public bodies to better understand how the services they provide are used and evaluate their outcomes.

Details of this measure are presented in Section B, "Growing Québec's Wealth," of the *Québec Budget Plan – March 2023*.

1.4 Preventing money laundering in Québec casinos and gaming halls

In order to implement certain recommendations relating to money laundering contained in the Deloitte report regarding Loto-Québec casinos and gambling halls, a new provision will be added to the *Act respecting the Société des loteries du Québec* (CQLR, chapter S-13.1) to stipulate that Loto-Québec may, when it deems it appropriate, verify the identity of a client and the source of the money that they exchange or claim in a casino or gambling hall.

Details of this measure are presented in Section E, “Supporting Quebecers,” of the *Québec Budget Plan – March 2023*.

1.5 Revising the specific duty on new tires

The \$3 environmental duty on the purchase of new tires to self-finance the recovery of used tires is no longer representative of the current costs of collecting and processing scrap tires. Moreover, the single duty for car and truck tires does not consider the difference in the cost of handling the two types of tires.

Accordingly, starting July 1, 2023, the duty for new tires will be \$4.50 for cars and \$6 for trucks.

— These revised duties will be included in a separate bill that will include fiscal measures only.

In addition, as administrator of the Québec Integrated Used Tire Management Program, RECYC-QUÉBEC will have to submit an opinion on financial viability for the program every five years so that the duty on new tires can be revised as needed.

Amendments must be made to the *Act respecting the Société québécoise de récupération et de recyclage* (CQLR, chapter S-22.01) to comply with RECYC-QUÉBEC’s obligation to produce the opinion on financial viability for the program.

Details of this measure are presented in Section F, “Diversifying and Consolidating Environmental Measures,” of the *Québec Budget Plan – March 2023*.

1.6 Promoting greater intergenerational equity by reducing the debt burden

Reducing the debt burden promotes greater intergenerational equity. Furthermore, it makes a positive contribution to economic growth through the creation of a climate of confidence conducive to private investment and higher productivity.

Implementing a new debt reduction objective and the changes made, starting in fiscal 2023-2024, in revenues that will be dedicated to the Generations Fund require legislative amendments to the *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter R-2.2.0.1), which are to be effective by March 31, 2024.

Details of these measures are presented in Section I, “The Québec Government’s Debt,” of the *Québec Budget Plan – March 2023*.

□ Gradually reducing the net debt to 30% of GDP within 15 years

Since 2010, the *Act to reduce the debt and establish the Generations Fund* stipulates that for fiscal 2025-2026, the gross debt must not exceed 45% of GDP, while the debt representing accumulated deficits must not exceed 17% of GDP. These targets were set following the 2008 financial crisis and changes to government accounting, which made it impossible to reach the targets established in 2006.

Québec will now focus its reporting on net debt. As at March 31, 2023, the net debt will stand at 37.4% of GDP. Amendments to the Act will be proposed to gradually reduce the net debt to within a range of 27.5% of GDP to 32.5% of GDP over the next 15 years, that is, by fiscal 2037-2038, with a median target of 30% of GDP.

□ Revising the revenues dedicated to the Generations Fund

The Generations Fund has been a significant debt reduction strategy measure since its inception in 2006. The government firmly intends to continue making payments that will contribute to greater intergenerational equity. Note that in the first year following its inception, fiscal 2006-2007, \$584 million in revenues were dedicated to the Generations Fund. If no changes were proposed, payments to the Fund would reach \$5.4 billion by fiscal 2027-2028.

Accordingly, the government intends to review the share of revenues dedicated to these payments with a view to balancing Quebecers’ present and future needs. To that end, amendments to the *Act to reduce the debt and establish the Generations Fund* will be proposed.

As of 2023-2024, three sources of revenues will be dedicated to the Generations Fund:

- water-power royalties, which are paid by Hydro-Québec and private hydroelectricity producers;
- an additional contribution from Hydro-Québec, which will be set at \$650 million per year;
- income generated by the investment of the sums making up the Generations Fund.

In addition, donations, legacies and other contributions received by the Minister of Finance may continue to be paid into the Generations Fund.

1.7 Overseeing cryptoasset ATMs

Under current legislation, it is difficult to determine the number of cryptoasset ATMs in Québec and their locations. However, some people may use this technology for tax evasion and money laundering purposes.

The government wishes to make changes to the *Money-Services Businesses Act* (CQLR, chapter E-12.000001) and the *Regulation under the Money-Services Businesses Act* (CQLR, chapter E-12.000001, r. 1) to provide better oversight for the ATMs used to exchange cryptoassets in Québec.

Details of this measure are presented in Section B, “Ensuring Tax Fairness,” in *Additional Information – March 2023*.

1.8 Increasing penalties for alcohol smuggling

Some alcohol smuggling schemes have become more prevalent in recent years, such as those involving shipping and resale in the Nord-du-Québec region or home delivery.

To counteract alcohol smuggling schemes and facilitate police action against the individuals involved, the government will propose making amendments to the *Act respecting offences relating to alcoholic beverages* (CQLR, chapter I-8.1) in order to:

- increase the amounts of certain fines set out in the Act;
- stipulate that offenders are responsible for the costs associated with seized vehicles.

Details of this measure are presented in Section B, “Ensuring Tax Fairness,” in *Additional Information – March 2023*.

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