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Highlights of the 2018 Quebec Fall Economic Update

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Quebec's Minister of Finance Éric Girard delivered the fall update on the province's economic and financial situation and a 19-page information bulletin titled "Fiscal measures announced in the Update on Québec's Economic and Financial Situation and Other Measures". The update, which was released on December 3, 2018, introduces proposed legislation to harmonize the province's rules with certain tax measures announced in the Federal Fall Economic Update released on November 21, 2018. The update announces the harmonization of the accelerated investment incentive. The economic update also announces changes to the additional capital cost allowance (CCA) which was introduced in the 2018 Quebec budget as a consequence of the introduction of the accelerated depreciation announced in the Quebec economic update. The update also introduces a new permanent additional CCA of 30% to certain properties. The update also announces an enhancement to the family allowance and introduces a new senior assistance tax credit.

The Minister of Finance expects a budgetary surplus of $4.5 billion for fiscal 2018-2019 before the deposits in the Generations Fund of $2.9 billion.

Background
The update presented by the Minister of Finance is the first of the government of the Coalition Avenir Québec by François Legault.

In accordance with the Minister of Finance's undertaking, the 2018 Quebec Fall Economic Update states that the province will harmonize with certain measures announced in the 2018 Federal Fall Economic Update. For full details on the 2018 Federal Fall Economic Update, see *TaxNewsFlash-Canada* 2018-47, "Canada Announces Enhanced Capital Cost Allowances".

Capital Cost Allowance changes and other deductions

Accelerated Investment Incentive

The economic update harmonizes with federal changes that allow businesses to amortize the full cost of machinery and equipment used in manufacturing and processing, and clean energy generation equipment, in the year the property is available for use. The new expensing rules will be gradually phased out for investments that become available for use after 2023.

Also, the economic update harmonizes with the new Accelerated Investment Incentive introduced by the federal government, which in general allows an accelerated deduction that allows businesses to deduct up to three times the amount of tax depreciation that would otherwise apply in the year that the property is available for use.

These changes will apply on the same dates as the federal measures with which they are harmonized.

Rules applicable for qualified intellectual property

The update introduces special rules for qualified intellectual property and general-purpose data processing equipment.

Qualified intellectual property means property acquired after December 3, 2018 that is a patent or a right to use patented information, a license, a permit, know-how, a commercial secret or other similar property constituting knowledge (generally a property included in Class 14, 14.1 or 44) and meets certain conditions. Additionally, the property must be acquired by a taxpayer to implement an innovation or invention concerning the taxpayer's business. Where an accelerated investment incentive property is a qualified intellectual property available for use before 2024, the rules will be changed so that the full cost of the property will be deductible in the year it is available for use.

Rules applicable for general-purpose electronic data processing equipment

Property composed of general-purpose electronic data processing equipment and systems software (property in class 50) purchased after December 3, 2018 and used primarily in Québec in the course of carrying on a business, will be fully deductible where the property becomes available for use before 2024.

Change and elimination of the additional capital cost allowance of 60%

On March 27, 2018, Quebec's Finance Minister introduced an additional CCA of 60% for qualified manufacturing and processing equipment (class 53) and qualified computer equipment (class 50), acquired before April 1, 2020 and that was new at the time of its acquisition. This amount was equal to 60% of the portion of the CCA that the taxpayer claimed for the year and is attributable to the property (see *TaxNewsFlash 2018-15*, "Highlights of the 2018-2019 Quebec Budget").

The economic update introduces changes that will be made to the tax legislation in order to maintain the same level of effective assistance associated with the additional CCA of 60% as was intended for at the time the allowance was introduced. Therefore, for qualified property acquired after November 20, 2018 and before December 4, 2018, changes will be made to the calculation of the additional CCA as a consequence of the increased CCA due to the accelerated investment incentive.

Transitional rules are provided for certain qualified property purchased after December 3, 2018 but before July 1, 2019, where the qualified property is acquired pursuant to a written obligation entered into not later than December 3, 2018 or where the construction of the property by or on behalf of the taxpayer began before December 3, 2018.

Introduction of an additional capital cost allowance of 30%

The update introduces a new permanent additional CCA of 30% for qualified properties acquired after December 3, 2018. As a result, when combined with the full expensing measures, taxpayers will be able to deduct 130% of the value of their eligible investments.

This change applies to properties that are new at the time of acquisition by the taxpayer, where the property is not acquired from a person or partnership with which the taxpayer does not deal at arm's length, and the property is used within a reasonable time, will be eligible if the property is:

- A machinery or equipment used in manufacturing or processing (property included in class 53), other than property that had allowed or could have allowed the taxpayer to claim the additional CCA of 60%, or property acquired after 2025 that is property included in Class 43, but that would have been included in Class 53 had it been acquired in 2025

- A clean energy generation equipment (property included in Class 43.1 or in Class 43.2)

- A property composed of general-purpose electronic data processing equipment and systems software for that equipment (property included in Class 50), other than property that had allowed or could have allowed the taxpayer to claim the additional capital cost allowance of 60%

- A qualified intellectual property (as applicable in the context of the accelerated investment incentive as described above)

Other measures

Child assistance tax credit

The refundable tax credit for child assistance (RTCCA) is composed of a child assistance payment, a supplement for the purchase of school supplies and a supplement for handicapped children with exceptional care.

As of 2019, the RTCCA will become a refundable tax credit granting an allowance to families, and the child assistance payment that it includes will be renamed to family allowance.

The economic update announces an increase in the family allowance by $500 for an eligible individual's second and third children.

Effective 2020, the maximum amount will be indexed to inflation.

Senior assistance tax credit

The economic update introduces a new refundable tax credit for senior assistance for low-income seniors aged 70 or over, effective 2018. This refundable tax credit may be up to $200 for a single senior and $400 for a senior couple. The assistance will be reduced at a rate of 5% for income exceeding $22,500 where the senior has no eligible spouse, or for income exceeding $36,600 where the senior has an eligible spouse. Effective 2019, the maximum amount will be indexed to inflation.

Adjustment to the work premium tax credit

The economic update announces adjustments to the calculation of the work premiums reduction thresholds. The adjustments will take into consideration the additional contributions required on pensionable earnings due to the enhancement of the Quebec Pension Plan.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's fall economic update on your personal finances. We can also keep you abreast of the progress of these proposals as they make their way into law.
