



TaxNewsFlash

Canada

Highlights of the 2023 Quebec Budget

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Quebec's Finance Minister Eric Girard delivered the province's 2023 budget on March 21, 2023. The budget anticipates a deficit of \$5 billion for 2022-23 and projects deficits of \$4 billion for 2023-24 and \$3 billion for 2024-25. The government expects the budget balance to be restored for fiscal 2027-2028.

Although the budget does not include any changes to the corporate income tax rates, it does reduce the personal income tax rate by 1% for the two lowest income tax brackets, effective January 1, 2023. The budget also introduces a new tax holiday for certain large investment projects carried out after March 21, 2023.

Corporate tax changes

Corporate income tax rates

The budget does not announce changes to the province's corporate tax rates. As a result, Quebec's corporate income tax rates remain as follows:

Corporate Income Tax Rates — As of January 1, 2023		
	Quebec	Combined Federal and Quebec
General	11.5%	26.5%
M&P	11.5%	26.5%
Small business ¹	3.2%	12.2%

¹ On first \$500,000 of active business income.

New tax holiday for large investment projects

The budget introduces a new tax holiday for large investment projects carried out after March 21, 2023. A corporation or partnership that carries out a large investment project in Quebec may, under certain conditions, benefit from an income tax holiday as well as a holiday from the employer contribution to the HSF. The new tax holiday will be in effect for 10 years and it will be calculated by applying a rate of 15%, 20% or 25% to the cumulative total eligible expenditures related to the project. The cumulative total eligible expenditures relating to the project may not exceed \$1 billion.

To qualify for the new tax holiday, a corporation or partnership and the project must not be carried out in an excluded sector of activity. Also, the project will have to satisfy a \$100 million investment threshold over a 48-month investment period.

Generally, to be eligible for the new tax holiday, a corporation or partnership will have to obtain an initial qualification certificate as well as annual certificates issued by the Minister of Finance. The initial certificate application must be submitted no later than December 31, 2029.

The new tax holiday (which replaces the former tax holiday) will apply in respect of an investment project for which an application for an initial qualification certificate is made after March 21, 2023.

Quebec refundable tax credits

The budget introduces changes to the following Quebec tax credits:

- Refundable tax credit for Quebec film or television production
- Refundable tax credit for book publishing
- Refundable tax credit for the production of multimedia events or environments presented outside Quebec.

Personal tax changes

Personal income tax rates

The provincial budget announces a 1% decrease to the tax rate applicable for the first two tax brackets. As a result, Quebec's tax rates and brackets effective January 1, 2023 are as follows:

Tax rates	Tax brackets
14%	Up to \$49,275
19%	\$49,276 – \$98,540
24%	\$98,541 – \$119,910
25.75%	\$119,911 and over

As a consequence of this change, the tax rate applied to certain personal tax credits, such as the basic personal amount and the amount for a person living alone, will decrease to 14% (from 15%).

The budget also reduces the rate applicable to the calculation of the tax credit for career extension, the tax credit for volunteer firefighters and the tax credit for search and rescue volunteers and the first-time home buyers' tax credit to 14% (from 15%).

Quebec's top marginal personal income tax rates effective January 1, 2023 are as follows:

Personal Combined Federal/Quebec Top Marginal Rates	
	2023
Interest and regular income	53.31%
Capital gains	26.65%
Eligible dividends	40.11%
Non-eligible dividends	48.70%

Enhancement to the refundable solidarity tax credit

The solidarity tax credit is made up of three components: the Quebec sales tax component, the housing component and the component for individuals living in northern villages.

The budget enhances the amounts paid under the housing component of the solidarity tax credit. As such, the amounts will be indexed at a rate of 12.88% (instead of 6.44%) for the payment period beginning July 1, 2023.

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

The budget increases the non-refundable tax credit for volunteer firefighters and search and rescue volunteers to \$5,000 (from \$3,000). As a result, a volunteer firefighter or a search and rescue volunteer who performed at least 200 hours of eligible service may be able to claim a non-refundable tax credit of up to \$5,000 and worth up to \$700 (\$5,000 x 14%) as of the 2023 taxation year.

Indirect tax measures

Duty for new tires for road vehicles

The budget increases the specific duty for certain new tires for road vehicles. For tires for which the diameter of the rim is less than or equal to 62.23 cm and the overall diameter is less than or equal to 83.82 cm the duty will increase to \$4.50 (from \$3). For new tires for road vehicles for which the diameter of the rim is less than or equal to 62.23 cm and the

overall diameter is greater than 83.82 cm but does not exceed 123.19 cm the duty will increase to \$6.00.

The increase in specific duty will generally apply to new tires acquired after June 30, 2023.

Other tax changes

Quebec Pension Plan (QPP)

The budget introduces changes to the Quebec Pension Plan (QPP). Effective January 1, 2024, workers aged 65 or over will have the option to stop paying QPP contributions, provided they are also receiving a QPP or Canada Pension Plan retirement pension. Additionally, workers over 72 years of age will no longer be obliged to contribute to the QPP.

Tax compliance regarding crypto-assets

The budget gives Revenu Quebec the power to ask taxpayers whether they own or have used virtual assets to carry out certain transactions and to request, where applicable, the details of these transactions. This measure will apply as of the date the bill giving effect to this measure receives Assent.

Changes to the framework for tax-advantaged funds

The budget introduces changes to the three tax-advantaged funds (i.e. Fonds de solidarité des travailleurs du Québec, the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi and Capital régional et coopératif Desjardins) which will:

- Simplify the investment requirement applicable to the tax-advantaged funds by reorganizing the investment categories
- Clarify the mission of the funds
- Maximize the economic impact of labour-sponsored funds' investments by increasing the minimum holding period for shares in labour-sponsored funds
- Introduce a rule limiting access to the non-refundable tax credit for a labour sponsored fund.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's Quebec budget on your personal finances or business affairs, and point out ways to realize any tax savings. We can also keep you abreast of the progress of these proposals as they make their way into law.

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