



TaxNewsFlash

Canada

Highlights of the 2023 Quebec Fall Economic Update

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Quebec's Finance Minister Eric Girard delivered the province's 2023 Fall Economic Update on November 7, 2023. The Update anticipates a deficit of \$1.75 billion for 2023-24 before deposits in the Generations Fund of \$2.24 billion, bringing the budgetary balance before use of the stabilization reserve, to negative \$3.99 billion. Although the Update does not include any new changes to the corporate or personal tax rates, it does introduce measures to extend and enhance the investment and innovation tax credit (C3i) and eliminate the additional capital cost allowance of 30% currently available for investments in certain assets.

The Update also confirms that the personal income tax system and social assistance will be indexed at 5.08% as at January 1, 2024, among other changes.

Corporate tax measures

Investment and Innovation Tax Credit (C3i)

The Update extends by an additional five-year period the tax credit relating to investment and innovation (C3i) and announces various enhancements to the tax credit.

In particular, the Update extends the C3i tax credit to specified expenses incurred before January 1, 2030 (from January 1, 2025). As a result, the C3i tax credit is available to qualified corporations that acquire manufacturing or processing (M&P) equipment, general-purpose electronic data processing equipment or qualified management software packages after March 10, 2020 and before January 1, 2030.

To calculate the C3i on a specified property for a taxation year, an eligible taxpayer must determine the amount that its specified expenses for the property (i.e., generally the amount of expenses incurred for the specified property that are included in its capital cost, subject to a cumulative limit and certain exceptions) exceed its excluded expenses (i.e., \$5,000 or \$12,500, depending on the asset). Then, the taxpayer must multiply this amount by the relevant C3i rate.

The Update also extends the temporary enhancement of the C3i rate that had been set to expire as of January 1, 2024. Under certain conditions taxpayers may claim the enhanced C3i rate, depending on level of economic vitality of the territory where the property is acquired to be mainly used. The Update introduces a new enhanced C3i rate as of January 1, 2024 for specified expenses incurred after December 31, 2023 or after March 25, 2021 and before January 1, 2024 for the acquisition of a of a specified property after December 31, 2023. Previously, the enhanced rate was scheduled to end for specified expenses incurred after March 25, 2021 but before January 1, 2024, to acquire a specified property. As a result, the C3i rates will apply as follows:

Rates of the tax credit relating to investment innovation			
Territory where the property is acquired to be mainly used	Rates applicable after March 10, 2020 and before March 26, 2021	Rates applicable after March 25, 2021 and before January 1, 2024	Rates applicable after December 31, 2023
Territory with low economic vitality*	20	40	25
Territory with intermediate economic vitality	15	30	20
Territory with high economic vitality	10	20	15

*Quebec will update tax legislation to remove regional county municipalities of Matawinie and Argenteuil from the definition of “territory with low economic vitality” for specified expenses incurred after June 30, 2025.

The Quebec Update announces that a qualified corporation will be able to benefit from the C3i regardless of its gross income. Therefore, a qualified corporation will be able to benefit from a refundable C3i regardless of its assets or its gross income, with respect to specified expenses incurred in a taxation year that begins after December 31, 2023. Originally, the refundability of the C3i depended on the size of the businesses, as follows:

- Assets and gross income do not exceed \$50 million — Fully refundable

- Assets and gross income exceed \$50 million but are less than \$100 million — Partially refundable
- Assets and gross income are \$100 million or more — Non-refundable.

The Update also announces other changes to the C3i credit, including to:

- Amend the calculation of the balance of the cumulative specified expense limit
- Amend the definition “specified expenses”
- Extend the deadline for submitting the prescribed form containing prescribed information to claim the tax credit.

Elimination of the Additional Capital Cost Allowance of 30%

The Update announces that, effective January 1, 2024, taxpayers will no longer be able to claim the 30% additional capital cost allowance (introduced in 2018), for investments in manufacturing and processing equipment, clean energy generation equipment, computer hardware and certain intellectual property.

Personal tax measures

Public prescription drug insurance plan premium

In the Update, Quebec adjusts the exemptions allowed for the purpose of calculating the premium payable under the public prescription drug insurance plan. The annual premium payable by an adult is determined on the basis of family income, from which an exemption amount is subtracted. The amount of each of the allowable exemptions for 2023, according to household composition, is included in Information bulletin 2023-6, *Fiscal measures announced as part of the presentation of the update on Québec’s economic and financial situation*.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year’s Quebec Fall Economic Update 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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