MERCER'S RESPONSE: QUEBEC PROVINCIAL BUDGET

Employers in Quebec and those with employees in Quebec should take note of some measures announced with Québec's Minister of Finance, Carlos Leitão, release of the government's budget on March 28, 2017:

- With the retroactive elimination of the health contribution and general tax reduction there is no change for employers, but taxpayers will be feeling some relief to their wallets.
- Postponing the reduction and elimination of the compensation tax should not have a direct immediate impact on employers (except those who have already incorporated the expected reduction in their budgets) since most of the insurance companies have not taken this reduction into consideration in their renewals.
- Pension uncertainty remains as there is no update announced to QPP. While the program has served retirees well for the last 50 years, an update and expansion is needed.

RETROACTIVE ELIMINATION OF THE HEALTH CONTRIBUTION FOR LOW- AND MIDDLE-INCOME TAXPAYERS FOR 2016

The health contribution, which was supposed to be eliminated only as of 2017, will be eliminated retroactively, as of 2016, for all adults whose income for that year did not exceed $134,095 (resulting in savings of up to $175). Adults whose 2016 income was greater than $134,095, other than exempt individuals, must pay a health contribution equal to the lesser of $1,000 and 4% of the amount by which their 2016 income exceeded $134,095.

Revenu Québec will be responsible for cancelling the health contribution amount that was payable by individuals with an income not exceeding $134,095 for 2016, and for recalculating the amount to be paid by individuals with an income greater than $134,095 for 2016. In addition, a new notice of assessment for 2016 will be sent, by no later than June 30, 2017, to all taxpayers for whom Revenu Québec has already determined, up to March 28, 2017, the health contribution payable for 2016.

GENERAL TAX REDUCTION AND SIMPLIFICATION OF THE CALCULATION OF PERSONAL TAX CREDITS

The government is easing the tax burden on all Quebecers by granting a general tax reduction (approximately $55 per taxpayer) in the form of an increase in the basic tax credit as of the 2017 taxation year. The tax reduction will, however, only be factored into the income tax to be deducted at source from wages and certain other amounts, such as retirement benefits, starting in 2018. For 2017, source deductions will not be adjusted to take into account this change, and the tax reduction will be applied when individuals file their income tax returns.

The government is also simplifying the calculation of personal tax credits. Accordingly, as of the 2017 taxation year, personal tax credits will be calculated according to the rate applicable to the first taxable income bracket of the personal income tax table (16%) instead of the second taxable income bracket (20%). The amounts will be increased to ensure that there are no reductions in the value of the personal tax credits. Some tax credits (such as the medical expense tax credit) will continue to use the 20% conversion rate.

EXTENSION OF THE COMPENSATION TAX FOR FINANCIAL INSTITUTIONS

Contrary to what was announced by the Québec Minister of Finance on December 2, 2014, the compensation tax applicable to financial institutions will not be reduced on April 1, 2017 and then eliminated on April 1, 2019.

Insurance companies operating in Québec, including persons or entities administering uninsured employee benefit plans, currently pay a 3% tax on insurance premiums and contributions relating to life, health or physical well-being insurance.

In addition to the above tax, a 0.48% compensation tax applicable to financial institutions is also calculated on premiums and contributions relating to life, health or physical well-being insurance. The compensation tax was supposed to be reduced to 0.30% on April 1, 2017 and be eliminated on April 1, 2019.

The Québec Minister of Finance has instead announced that the compensation tax applicable to financial institutions will remain at the current level until March 31, 2022, be reduced to 0.30% on April 1, 2022 and then eliminated on April 1, 2024.

Consequently, insurance companies and persons or entities administering uninsured employee benefit plans that are currently subject to insurance premium taxes totaling 3.48% will see those taxes maintained for the next five years (i.e., until March 31, 2022).

EXPERIENCED WORKERS

The budget maintains the expansion of the tax credit for experienced workers in order to attract such workers to the labour market. Statistics provided in the budget reveal that three out of seven new jobs created in Québec in 2016 were held by workers between the ages of 55 and 64, which shows that labour market access for workers in this age group is high. Experienced workers could make a greater contribution to Québec's economic growth.

NO UPDATE ON THE QUÉBEC PENSION PLAN (QPP)

The Québec government has not taken advantage of the publication of the budget to provide an update on the future of the Québec Pension Plan. Consultations were conducted in Québec in January 2017 to hear the comments of various groups on the future of the Québec Pension Plan. It is not clear at this point what the next steps are on that important work.

The QPP was established in 1966 and has served our current retirees well. Fifty years later, it is time to position the plan for the future. Many Canadian employers are already or will soon be analyzing how to adapt their private pension plans to the new Canada Pension Plan, which will gradually be expanded over the years from 2019 to 2025. These employers need to know if and how the Québec Pension Plan will also be expanded.

Mercer believes that the expansion of the Québec Pension Plan is necessary for the future of our retirement system. We believe that the more modest approach proposed in December by the Québec government is not well suited to the workforce of tomorrow, which will be more mobile and composed of more self-employed workers. The advantage of adopting a program similar to the rest of Canada outweighs the fact that the cost of the Québec Pension Plan is a little more overall. To reduce the costs of the QPP, Québec should instead consider increasing the normal retirement age from age 65 to 67 and actuarial losses should be shared with pensioners instead of always turning to active workers and employers for additional contributions.

We look forward to receiving more information from the Québec government on the expansion of the Québec Pension Plan.

If you have any questions on how this will impact your business and how you can address these changes, contact a Mercer Consultant.

Contact your Mercer consultant today to discuss what this means for your organization.

ABOUT MERCER

At Mercer, we make a difference in the lives of more than 110 million people every day by advancing their health, wealth, and careers. We're in the business of creating more secure and rewarding futures for our clients and their employees — whether we're designing affordable health plans, assuring income for retirement or aligning workers with workforce needs. Using analysis and insights as catalysts for change, we anticipate and understand the individual impact of business decisions, now and in the future. We see people's current and future needs through a lens of innovation, and our holistic view, specialized expertise, and deep analytical rigour underpin each and every idea and solution we offer. For more than 70 years, we've turned our insights into actions, enabling people around the globe to live, work, and retire well. At Mercer, we say we *Make Tomorrow, Today*.

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