MERCER'S RESPONSE: QUEBEC PROVINCIAL BUDGET 2018

On March 27, 2018, the government of Quebec tabled its economic plan for 2018-2019.

The budget contains several investments of interest to Quebec businesses, from tax measures intended to improve competitiveness to initiatives aimed at ensuring Quebec is attracting and retaining top talent, and ensuring that Quebec's workforce has the skills needed to succeed in an increasingly global economy.

Developing Quebec's Workforce

The March 2018 budget sets aside over $800 million over a five-year period to fund its National Workforce Strategy. The Strategy – announced in this budget, with further details to be revealed in the coming weeks – is intended to better understand the current and future workforce needs in all regions of Quebec.

Key initiatives include:

- **Integrating immigrants into the labour market** – The government expects that immigration will play a significant role in filling the more than 1.3 million jobs which will need to be filled over the next ten years. To this end, they are investing:
  - Almost $20 million in the wage subsidy program for immigrants;
  - $50 million to increase the francization service offer;
  - More than $90 million to foster the recruitment of foreign workers and students
- **Enhancement of the tax credit for experienced workers** – In order to spur workforce participation, as of the taxation year 2018, the government is increasing tax incentives for workers aged 61 and over to continue to participate in the workforce:
  - Reducing the eligibility age for the tax credit from age 62 to age 61
    - For workers 61 years of age, the maximum amount of eligible work income is $3,000
  - Increasing the maximum amount of eligible work income by $1,000 for all experienced workers
    - As we wrote in our 2017 white paper, Bold Ideas for Mending the Long-Term Savings Gap: "Societies, employers and individuals themselves will all benefit from greater acceptance of and more accommodation for working later into life." These moves to improve workforce participation by experienced workers are positive.
- **Increasing the flexibility of government training programs** – The government is investing more than $115 million in an effort to address a long-term imbalance between job vacancies and workforce skills. This investment aims to:
  - Increase graduation rates in in-demand fields;
  - Allow greater flexibility in training offered in rural areas

Preparing for the Workforce of the Future will be one of the key challenges facing employers, governments, and individuals. Globalization, rapid technological advances (such as artificial intelligence advanced manufacturing and digitalization) and changing work relationships will require people to develop new skills and capabilities to succeed. The investments made in this budget represent an important step towards ensuring that Quebec's workforce will be able to adapt to these changing needs and help Quebec employers to succeed in the global economy.

While these investments are an important piece of the puzzle, employers also have important roles to play. Employers will need to understand the new skills and capabilities that will be most important for their specific industry and identify which programs and approaches will be most successful in helping their employees to gain these new skills. The measures announced in the budget should help employers by offsetting the cost of retraining and skill-building programs, as well as increasing the supply of new graduates with the skills required to meet the future needs of Quebec's employers.

Changes in Health Services Fund (HSF) Employer Contributions

As part of an effort to reduce taxes on small and medium businesses (SMBs), the Quebec government is reducing HSF contributions for SMBs in all sectors. In addition to gradually increasing the total payroll threshold to determine whether an employer is eligible to a rate below the regular rate of 4.26 per cent from $5 million to $7 million over a four-year period as of 2019, allowing more businesses to take advantage of this rate reduction, the government is making the following changes:

Businesses with payroll less than $1 million will see their rates be reduced as follows over a five year period:

- Primary and manufacturing sectors: from 1.50 per cent to 1.25 per cent
- Service and construction sectors: from 2.30 per cent to 1.65 per cent

SMBs whose total payroll is over $1 million without exceeding the total payroll threshold will also see a gradual reduction in their contribution rate.

These tax changes come on the heels of the enhancement of the Quebec Pension Plan (QPP). As we wrote in November, while the expansion of the QPP was welcome news for employees, we felt there was a missed opportunity to address the gap in payroll taxation between Quebec and the rest of Canada.

These measures will now help Quebec SMBs absorb some of the upcoming costs associated with QPP expansion, and decrease the gap in payroll tax between Quebec and the rest of Canada. These changes are likely to be welcomed by employers.

No Action on Health and Welfare Trusts

In February, the Federal Government announced the end of Health and Welfare Trusts (HWTs), with the regime being discontinued by the end of 2020 and existing HWTs converted to Employee Life and Health Trusts.

This Quebec budget contained no information on how the government of Quebec plans to harmonize its own rules with the new rules announced by the federal government. Once Ottawa completes its consultations and releases its transitional rules, Quebec will likely have to act as well.

Mercer is reviewing the likely impact of the discontinuation of the HWT regime and will continue to monitor developments closely, including the position of the government of Quebec. Any change with an impact to HWTs will require swift action.

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