

Make Sure 2016 Québec Source Deductions Comply With 7 New MRQ Rules



Revenue Québec issued the new *Formulas to Calculate Source Deductions and Contributions* (TP-1015.F-V) for 2016 containing the changes laid out in the 2016 provincial budget.

Here's a summary of the 7 key changes employers need to know about.

1. Variable E: Indexation Factor

The indexation factor used to calculate the value of personal tax credits for the 2016 tax year is 1.09%.

2. Variables H, H₁ and H₂: Deduction for Employment Income

In 2016, the maximum deduction for employment income went up from \$1,120 to \$1,130. As a result, the maximum amount of variables H, H₁ and H₂ for 2016 also increases from \$1,120 to \$1,130.

3. Variable K: Constant for Adjusting the Income Tax Rate

The 2016 income tax rates that apply to taxable income brackets didn't change from 2015, but the income thresholds for those brackets were indexed. In other words, in 2016:

- The 16% rate applies to taxable income of \$42,390 or less (as opposed to \$41,935 in 2015);
- The 20% rate applies to taxable income of more than \$42,390, but not more than \$84,780 (previously \$83,865);
- The 24% rate applies to taxable income of more than \$84,780, but not more than \$103,150 (previously \$102,040); and
- The 25.75% rate applies to taxable income of more than \$103,150.

The values of variable K are therefore \$1,695 (increased from \$1,677), \$5,086 (increased from \$5,032) and \$6,891 (increased from \$6,817).

4. Variable M: Québec Pension Plan

The 2016 QPP contribution rate increased from 10.50% to 10.65%. The corresponding change in contribution rates for employers is 5.325% and for employees 5.325% as well. Maximum pensionable QPP earnings went up from \$53,600 to \$54,900. Result: Variable M increased from \$2,630.25 to \$2,737.05.

5. Variables N and N₁: Québec Parental Insurance Plan

Maximum insurable earnings subject to QPIP premiums increased in 2016 from \$70,000 to \$71,500. The employee premium rate decreased from 0.559% to 0.548%; and the employer QPIP premium fell from 0.782% to 0.767%. As a result:

- Variable N went from \$391.30 to \$391.82; and
- Variable N₁ went from \$547.40 to \$548.41.

6. Variables Y, Y₁, Y₂, Y₃, Y₄, Q and Q₁: Fondation Acquisition Deductions

All of the changes we've discussed so far were in place at the start of 2016, but tax credits for acquiring Fondation shares are changing as a result of announcements made in the 2016 Budget. Specifically, effective June 1, 2015, the rate of the tax credit for the acquisition of shares issued by Fondation is 20% for any eligible share acquired after May 31, 2015, but before June 1, 2016. In the Budget Speech delivered on March 17, 2016, the government announced that the rate of this tax credit would be maintained at 20% for any eligible share acquired after May 31, 2016, but before June 1, 2018.

Result: In 2016, if an employee has authorized you to withhold an amount from pay for the purchase of shares issued by Fondation, you must use the 20% rate to calculate the amount to withhold as set out in the table below.

	Calculation of Source Deductions of Income Tax
Regular payments	$Y = (T \times I) - K - K1 - (0.20 \times E) - (0.15 \times P \times Q) - (0.20 \times P \times Q1) + Z$
Gratuities, retroactive pay or similar lump-sum payments	$Y1 = [T \times (I1 + B1)] - K - K1 - (0.20 \times E) - (0.15 \times P \times Q) - (0.20 \times P \times Q1) + Z1$ $Y2 = [T \times (I1 + B1 + B2)] - K - K1 - (0.20 \times E) - (0.15 \times P \times Q) - (0.20 \times P \times Q1) + Z2$
	First Method: $Y = (T \times I) - K - K1 - (0.20 \times E) - (0.15 \times S1 \times Q) - (0.20 \times S1 \times Q1) + Z$
Cumulative average	Second Method: $Y3 = (T \times I3) - K - K1 - (0.20 \times E) - (0.15 \times S1 \times Q) - (0.20 \times S1 \times Q1) + Z3$ $Y4 = (T \times I4) - K - K1 - (0.20 \times E) - (0.15 \times S1 \times Q) - (0.20 \times S1 \times Q1) + Z$ <p>Q = amount withheld for a pay period for the purchase of class A shares in the Fonds de solidarité FTQ</p>
Definitions	<p>Q1 = amount withheld for the pay period for the purchase, before June 1, 2016, of class A or class B shares in Fondation</p>

Note: The total value of variables Q and Q1 may not exceed \$5,000 for the year. For the pay period in which the annual maximum is reached, the value of

variables Q and Q1 must be zero.

7. Variable Z: Health Contribution

The final change is also the product of the Budget Speech—namely, the announcement that health contributions are being reduced gradually starting in 2016 on their way to total elimination in 2018. Result: The maximum amount of the health contribution for 2016 will be reduced as follows:

- From \$100 to \$50, for income greater than \$18,570 but not greater than \$41,265; and
- From \$200 to \$175, for income greater than \$41,265 but not greater than \$134,095.

What to Do: You must take the reduction into account when calculating source deductions as of July 1, 2016. In addition, the amounts used to calculate the health contribution included in calculating source deductions of income tax have been reduced (from \$50 to \$0 and from \$175 to \$150) so that individuals can benefit from the reduction retroactively to January 1, 2016. Also be sure to use the reduced amounts when calculating source deductions of income tax for any pay period beginning after June 30, 2016:

Estimated Annual Net Income (R) Health Contribution (Z)

More than Equal to or less than

\$0	\$41,265	\$0
		Whichever is less:
		• \$150; or
		• $5\% \times (R - \$41,265)$.
		Whichever is less:
		• \$1,000; or
		• $\$150 + [4\% \times (R - \$134,095)]$.
\$41,265	\$134,095	
\$134,095		