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The Québec Stock Savings Plan, Version II

By Jean-Pierre Chamberland et Thomas W. Copeland, Montréal

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The Québec Budget, tabled on March 19, 2009, amends the SME Growth Stock Plan by making it more accessible, improving its tax benefits and renaming it the "stock savings plan II."

The SME Growth Stock Plan was launched in 2005 to replace the Québec stock savings plan (widely known under the acronym QSSP), which had been introduced in 1979 and was used by many corporations in Québec to finance their growth and, in some cases, to undertake their initial public offering.

The stock savings plan II gives qualified corporations better access to capital markets by letting individuals who reside in Québec deduct the adjusted cost of a qualifying share.

In general terms, the main amendments brought by the 2009 Budget:

a) extend the plan to December 31, 2014;

b) raise the tax benefit for individuals who reside in Québec from 100% of the cost of acquiring shares to 150% for shares acquired before January 1, 2011; therefore, an investor taxed at the highest marginal rate buying $1,000 worth of qualifying shares will benefit from a provincial tax saving of $360;

c) increase the upper asset limit of a qualified issuing corporation from $100 million to $200 million (taking into account the assets of associated corporations);

d) reduce by one year the minimal holding period for qualifying shares (or valid replacement shares) acquired by an investor, decreasing the holding period to two taxation years following the year of acquisition.

The other main plan eligibility criteria applicable to corporations remain unchanged and can be summarized as follows:

e) The central management of the corporation is in Québec, and more than one half of the wages paid to its employees during the last taxation year were paid to employees of an establishment located in Québec;

f) Throughout the preceding twelve months, it carried on a business and had at least five full-time employees who are neither insiders nor persons related to such insiders;

g) A maximum of 50% of the value of its assets consists of investments, other than qualified investments.

Furthermore, the 2009 Budget simplifies the procedure for registering a "valid share" on the list of the *Autorité des marchés financiers* after June 30, 2010 by eliminating the obligation to obtain an advance ruling from Revenu Québec.

This could lead to an increase of the pool of "valid shares" and therefore contribute to the popularity of the stock savings plan II with investors.

The SME Growth Stock Plan introduced in 2005 was not as successful as the QSSP. Hopefully, the stock savings plan II will revive the interest of investors and facilitate the growth of future leaders in our economy.

For more information on the subject of this bulletin, please contact the authors:

Jean-Pierre Chamberland
514 865 5186
jchamberland@fasken.com

Thomas W. Copeland
514 397 7633
tcopeland@fasken.com