



Canadian Tax & Legal Alert

2022-2023 Quebec Budget:

Highlights of certain measures of interest for businesses

April 4, 2022

Overview

Finance Minister, Éric Girard, tabled the 2022-2023 Quebec Budget entitled “Your Government” on March 22, 2022.

This budget aims notably to improve the health care system and the education system by investing \$8.9 billion in the health care system by fiscal year 2026-2027, and by investing \$2.8 billion in order, among other things, to improve access to education services to encourage the qualification and requalification of workers in a context of labour shortages.

In addition, this budget fits into the government’s framework for energy transition, which calls upon the implementation of environmental actions to reduce greenhouse gas emissions, while recognizing the need to provide assistance to businesses to enable them to increase productivity so that they are competitive in the context of a globalized economy.

A summary of this budget should thus be drawn up from the following angles: a) investment aid in the form of an enhanced tax incentive measure for businesses; b) support for regional economic development; c) integration of immigrant workers to address labour shortages; d) support for innovation and research under *the Quebec Research and Innovation Strategy 2022-2027* (SQRI 2022-2027) which will soon be implemented; and finally, e) planned actions on environmental matters.

Themes in the 2022-2023 Quebec Budget that deal with investments to improve business productivity, labour scarcity, innovation and decarbonization of the economy overlap those discussed in the report entitled *A vision for a thriving Canada in 2030*¹. This report, published by Deloitte's Future of Canada Centre, identified these themes as important societal challenges to be addressed over the next few years.

Also, drawing a parallel between this budget and the report *A vision for a thriving Canada in 2030* allows us to appreciate the importance of these challenges and the role that businesses can play in the success of the energy transition leading to a prosperous and low-carbon Quebec economy.

Tax incentive measure to increase productivity for businesses

Extension of the temporary enhancement to the Investment and Innovation Tax Credit (C3i)

Introduced in the 2020-2021 Budget, the Investment and Innovation Tax Credit (C3i) is granted to a qualified corporation that acquires after March 10, 2020, but before January 1, 2025, manufacturing or processing equipment, general-purpose electronic data processing equipment or certain management software packages.

This tax credit may be refundable, in whole or in part, or non-refundable depending on the size of the corporation, but specified expenses that qualify for the tax credit are subject to a cumulative limit of \$100 million.

The tax credit rates with respect to specified property vary according to the economic vitality of the territory where the property will be used. These rates are established as follows:

- 20%, if the property is acquired for use primarily in a low economic vitality territory;
- 15%, if the property is acquired for use primarily in an intermediate economic vitality territory;
- 10%, if the property is acquired for use primarily in a high economic vitality territory.

In Budget 2021-2022, C3i rates were temporarily doubled in the context of the COVID health crisis to encourage businesses to carry out their investment projects and therefore contribute to accelerating Quebec's economic recovery.

This tax credit enhancement is extended until December 31, 2023, and the C3i rates for specified expenses incurred after March 25, 2021, but before January 1, 2024, will be as follows:

- 40%, if the property is acquired for use primarily in a low economic vitality territory;
- 30%, if the property is acquired for use primarily in an intermediate economic vitality territory;
- 20%, if the property is acquired for use primarily in a high economic vitality territory.

Specified property acquired between January 1, 2024, and December 31, 2024, will continue to give rise to tax credits under the originally, un-enhanced rates.

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¹ *A vision for a thriving Canada in 2030*, online: https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/fcc/ca-catalyst-canada-2030-aoda-en.pdf?icid=en_report_hero_section

This one-year extension of the C3i rate enhancement announced in the 2022-2023 Quebec Budget addresses a concern that businesses had – in the context of the COVID health crisis – namely to be able to carry out their investments within the fairly short period which was initially planned for the C3i rate enhancement. As such, this extension ensures that the C3i will play an important role in the completion of investment projects by Quebec businesses.

Regional economic development

The 2022-2023 Quebec Budget also recognizes the importance of supporting the economy of Quebec's regions and includes measures in this regard, in particular with a view to: (1) foster the development of forestry and the protection of wildlife capital, (2) continue to grow the bio-food sector, and (3) provide additional support for the development of the battery sector.

To achieve this, \$163.2 million over five years will be spent on the forestry sector, notably to encourage innovation in the forest industry, through the *Programme Innovation Bois*, by financially supporting innovative projects in all sectors of the forest products industry.

With respect to the bio-food sector, the government is allocating \$627 million over five years to maintain initiatives under the 2018-2025 bio-food policy, and therefore make it possible to finance projects to invest in food processing, food autonomy, and agriculture.

Finally, out of a budget of \$38.8 million over five years to accelerate economic development throughout Quebec, the battery sector will receive support for resources needed to carry out the assessments and analyses required to obtain environmental authorizations.

Labour scarcity

One of the factors that can contribute to Quebec's economic development is to ensure the growth of the workforce by facilitating the inclusion of people who, too often, face hiring constraints such as older people or people with disabilities, First Nations people and racialized people.

In addition, immigrants are often underemployed or hired to perform tasks for which they are overqualified.

The inclusion of these marginalized groups in the labour market would make society more egalitarian and help the productivity of businesses that are facing labour shortages.

Also, with measures to strengthen the integration of immigrants into the workforce, the 2022-2023 Quebec Budget is on the right path. To this end, a total of \$290.2 million over five years is provided to:

- Increase the support offered to immigrants to learn French;
- Foster the attraction of immigrants in the regions;
- Expedite the processing of immigration applications.

Another way for businesses to address labour scarcity is through the automation and digitalization of some of their processes.

In this regard, the above-mentioned C3i provides assistance to businesses in all industries that acquire new technology enabling them to digitize their operations and modernize their equipment.

Accordingly, businesses can boost productivity in the current context of labour scarcity by investing in their digital infrastructure.

Supporting innovation and research

In recent years, gross public and private spending on research and development (R&D) in Canada has declined at a time when innovation is increasingly dependent on intellectual property rights.

To remain competitive, Quebec businesses must maintain or even increase their R&D activities and the commercialization of their innovations.

In this regard, the 2022-2023 Quebec Budget reminds us that the *Quebec Research and Innovation Strategy 2022-2027* (SQRI 2022-2027) will be deployed soon and that \$1.3 billion will be allocated for its implementation. This strategy will allow, among other things, to facilitate access for businesses to the expertise, support and funding offered by key players in research and innovation, to support innovative technological entrepreneurship, and to stimulate investment, commercialization of innovations and deployment of new innovation zones.

The creation of innovation zones is designed to increase the commercialization of innovations, exports, local and foreign investments, and the productivity of businesses. The deployment of these zones is carried out under the aegis of the Ministry of Economy and Innovation.

As stated in this budget, SQRI 2022-2027 will complement existing tax measures, including the new Incentive Deduction for the Commercialization of Innovations (IDCI) that has been in effect for just over a year. The IDCI, which is a measure specific to the Quebec tax system, allows a corporation to benefit from an effective tax rate of 2% applicable on taxable income attributable to the commercialization of intellectual property in Quebec.

Additional funding is earmarked to support innovation and research in this budget. For example, \$500 million will be set aside for private equity funds to support the creation and growth of innovative businesses, and \$100 million for the *Impulsion PME* program, administered by Investissement Québec, which aims to help young innovative businesses with high growth potential access investment capital at the start-up stage.

Finally, \$110 million over a three-year period will go towards the renewal of the *Québec Life Sciences Strategy* in order, among other things, to strengthen the life sciences ecosystem and develop sophisticated technological, digital and physical infrastructure to attract and support businesses in this sector.

Planned actions in environmental matters

Decarbonization of Quebec's economy is essential to meet targets aimed at addressing climate change. As a result, the energy transition will require the use of technologies helping to reduce our collective carbon footprint. The focus will therefore need to be on lower carbon energy sources and clean technologies.

With this in mind, the 2022-2023 Quebec Budget also provides for the introduction of a new refundable tax credit for the production of biofuels in Quebec, which will apply from April 1, 2023, until March 31, 2033. This tax credit will be granted for the production of biofuels such as ethanol, cellulosic ethanol and biodiesel, as well as for other low-carbon fuels produced, for example, from organic matter.

The level of tax assistance offered by this new tax credit will vary and will increase according to the carbon intensity reduction of that biofuel relative to the gasoline or diesel fuel it replaces.

The new tax credit aims notably to contribute to achieving the Government of Quebec's goal of reducing the consumption of petroleum products by 40% by 2030.

This budget also mentions that the Quebec strategy on green hydrogen and bioenergy will be made public soon by the Minister of Energy and Natural Resources.

In addition, the 2022-2023 Quebec Budget is providing \$38.5 million for the implementation of the 2022-2027 government action plan for the management of asbestos and asbestos mining residues, and \$22.4 million over three years to decontaminate land with strong economic development potential as part of component 2 of the ClimatSol-Plus program.

How can Deloitte help you?

Our multidisciplinary team of professionals can help you with any of the topics covered in this tax alert, whether it is with respect to obtaining grants, claiming investment or R&D tax credits or for any type of government incentives related to investment and innovation.

If you have any questions, please contact your Deloitte representative or one of the individuals mentioned in this alert.



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