Canada
R&D and Government Incentives

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Quebec: New developments in SR&ED and government incentives

October 8, 2013

Quebec's economic policy

On October 7, 2013, the Government of Quebec released its **economic policy** and on the same day, Quebec's Ministry of Finance and the Economy (MFEQ) released **Information Bulletin 2013-10** (the Bulletin).The Bulletin announces legislative changes designed to (1) improve the investment tax credit (ITC) for manufacturing and processing (M&P) equipment and (2) introduce two new refundable tax credits. The improved ITC and the new tax credits are generally aimed at small and medium enterprises (SMEs), i.e. corporations and their associated corporations with paid-up capital of less than $15 million. These incentives will be reduced on a linear basis for corporations whose paid-up capital is between $15 million and $20 million.

The MFEQ also announced that the required investment expenditure threshold at which a project qualifies for the tax holiday for large investment projects (THI) would be reduced from $300 million to $200 million.

Improved ITC

Introduced in 2008, the ITC essentially enables a corporation or partnership to claim a tax credit of 5% to 40% of the acquisition cost of property used mainly in the M&P of articles for sale or lease. The rate and level of refundability of the tax credit depend on where the property is being used and on the entity's consolidated global paid-up capital. The ITC is available until the end of 2017.

The Bulletin states that the ITC will be improved in two ways.

The first improvement is a 10-percentage-point increase to the applicable ITC rate, thereby bringing the rate to 50% for certain regions in Quebec. In addition to the paid-up capital requirements described above, the taxpayer must be a qualified manufacturing corporation or a qualified manufacturing partnership, meaning, a corporation or partnership whose M&P wages and salaries represent more than 50% of total wages and salaries. Expenses for qualified property that are eligible for this higher rate must be incurred after October 7, 2013 but before January 1, 2018. However, qualified property cannot be property acquired under a written obligation concluded before October 8, 2013 or property whose construction had started on or before October 7, 2013.

The second improvement to the ITC is a broadening of the definition of "qualified property" to include general-purpose electronic data processing equipment, related system software and ancillary data processing equipment used in M&P activities. This improvement covers property acquired after January 31, 2011 but before January 1, 2018. Since this legislative change applies retroactively, the filing deadline will be eased so that a corporation or partnership may claim the ITC on such property beyond the statutory 18 months following its fiscal year-end. In this case, the corporation must submit its application to the *Agence du revenu du Québec,* no later than April 7, 2014.

Introduction of a refundable tax credit for buildings used in M&P activities

The Bulletin introduces a new tax credit for Quebec manufacturing SMEs that acquire a new building or make an addition to an existing building for the purpose of acquiring M&P equipment. Such expenditures will qualify for the refundable tax credit only if the corporation or partnership has also acquired at least $25,000 in property that qualifies for the ITC. The eligible expenditures will be subject to a cumulative cap of $150,000 for the credit eligibility period. This cap must be shared among associated corporations. As well, the expenditures must be part of the building's cost of capital and incurred after October 7, 2013 and before January 1, 2018. The building must not be a building acquired under a written obligation contracted before October 8, 2013, or a building where the construction had started on or before October 7, 2013.

To qualify, the building must be included in Class 1, Class 3, Class 6 or in subparagraph a) of the second paragraph of Class 10 of Schedule B of the *Regulation respecting the Taxation Act.* This building or addition must also be used mainly for M&P activities and must not have been used, acquired, or leased in any way whatsoever prior to its acquisition. The taxpayer must be a qualified manufacturing corporation or partnership, as defined above.

The tax credit rate will be determined on the basis of where the building is located. For qualified buildings located in a remote zone, the rate will be 50%. For buildings in the eastern Lower St. Lawrence, the rate will be 45% or 40% if the corporation receives the tax credit for job creation in specified regions. For buildings in an intermediate zone, the rates will be 35% or 30% if the corporation receives the tax credit for job creation. For other regions in Quebec, the rate will be 20%. The jurisdictions that make up the remote zones, the eastern Lower St. Lawrence, and the intermediate zones will be the same as those already established for the ITC.

A corporation will be entitled to the full tax credit rate if it meets the paid-up capital requirements previously mentioned.

Introduction of a refundable tax credit for the integration of information technologies (IT)

For Quebec manufacturing SMEs, integrating IT into business processes is important for developing and supporting productivity. Thus, the Government of Quebec is introducing a refundable tax credit for expenditures related to qualified management software programs. As with the above-described tax credit for buildings, this credit is aimed at qualified manufacturing corporations or partnerships.

The refundable tax credit is equal to 25% of the qualified expenditures incurred with respect to IT integration contracts. Specifically, these expenditures, which exclude expenses that are also eligible for the ITC, correspond to 80% of the expenses incurred before January 1, 2018. For a corporation, the total amount of the credit will be limited to $62,500, which corresponds to a cumulative ceiling of qualified expenditures of $250,000. To be entitled to the full rate of the tax credit, the corporation must meet the paid-up capital requirement described previously.

To be considered a qualified IT integration contract, the contract must receive a certificate from *Investissement Quebec* confirming that it meets the specified conditions.

According to the Government of Quebec, this initiative will benefit approximately 1,000 manufacturing SMEs by supporting management software implementation projects totalling $150 million over four years.

Reduction of the investment expenditure threshold for an investment project to qualify for the THI

Introduced in the November 20, 2012 Quebec budget, the THI is intended to support entities operating in the manufacturing, data processing and storage, wholesale trade and warehousing sectors. With the THI, a corporation carrying out a large investment project in Quebec after November 20, 2012 may, under certain conditions, enjoy a tax holiday on the income from its eligible activities relating to this project and a holiday from employer contributions to the Health Services Fund (HSF) in respect of the portion of wages paid that are attributable to the time spent by employees on such activities (contributions to the HSF are generally at a rate up to 4.26%). A qualified investment project must reach and maintain a minimum investment threshold of $300 million and the corporation must have submitted an initial application with the MFEQ no later than November 21, 2015. This tax holiday, which lasts 10 years, may not exceed 15% of the total eligible investment expenditures relating to the project.

In the Bulletin, the MFEQ announced that it is reducing the minimum investment expenditure threshold from $300 million to $200 million for investment projects which begin after October 7, 2013. These changes may also apply, under certain specific conditions, to corporations that filed initial applications before October 8, 2013.

Understanding the changes

To help you further understand the changes in the Bulletin, please contact your local Deloitte advisor.

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