

TAXATION IN QUÉBEC

FAVOURABLE MEASURES TO FOSTER INVESTMENT

2014 



Written by Raymond Chabot Grant Thornton
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For further information, please contact:

Investissement Québec

600, rue de La Gauchetière Ouest
Bureau 1500
Montréal (Québec) H3B 4L8
Canada
Telephone: 1 866 870-0437
Fax: 514 873-4503
infoIQ@invest-quebec.com
www.investquebec.com

Raymond Chabot Grant Thornton

To consult the list of our offices,
please refer to our Internet site at
www.rcgt.com under “Network.”

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Taxation in Québec

Favourable Measures to Foster Investment 2014

Changes announced by the Québec government on December 2, 2014

Tax Credit for Research and Development

The rates applicable to the refundable R&D tax credits will be standardized.¹ More specifically, the rates applicable to the tax credit for R&D wages will be the only ones to apply, replacing those of the other refundable R&D tax credits.

In addition, for fiscal years beginning after December 2, 2014, the first dollars that a corporation spends below the exclusion threshold are not eligible for Québec's R&D tax credits. The annual exclusion threshold is \$50,000 for corporations whose previous-year assets do not exceed \$50 million, and increases linearly up to \$225,000 when the previous-year assets are between \$50 million and \$75 million.

Tax Credit for the Acquisition of Manufacturing and Processing Equipment

For property acquired after December 2, 2014, the first dollars that a corporation spends below the exclusion threshold are not eligible for the tax credit for the acquisition of manufacturing and processing equipment. The exclusion threshold for property is \$12,500 and applies to each individual item.

Additional Deduction for Transportation Costs of Remote Manufacturing SMBs

For taxation years beginning after December 31, 2014, the base rates for the additional deduction are increased by one percentage point and the additional deduction applies to all regions of Québec. Lastly, the regional caps are increased; however, a rule now provides that these caps must be shared between associated corporations.

Contribution to the Health Services Fund

As of 2015, a reduced Health Services Fund contribution rate will be granted to primary and manufacturing sector corporations whose total payroll is less than \$5 million.

¹ This change will apply to research contracts and private partnership agreements entered into after December 2, 2014, and for taxation years beginning after December 2, 2014, in the case of contributions made to a research consortium.

INTRODUCTION

Corporate tax serves as an important stimulus for the economy. For this reason, Québec offers entrepreneurs a competitive tax system designed to foster business growth.

Intended especially for foreign companies considering investing in Québec, *Taxation in Québec: Favourable Measures to Foster Investment* provides an overview of the principal tax measures that apply to companies operating in Québec.

In addition to very attractive tax measures, Québec has given Investissement Québec specific tools that enable it to act as a financial partner to businesses. Although this brochure focuses on tax issues, Québec provides businesses with a range of financial solutions that complement those offered by financial institutions. These solutions may include conventional loans, loan guarantees, non-refundable contributions or equity interests. Further information about these financial products can be obtained from Investissement Québec at 1 866 870-0437 or by logging on to www.investquebec.com.

The information in this brochure was up to date as at June 5, 2014, and does not reflect any modifications that might have been announced subsequent to that date. Monetary amounts are expressed in Canadian dollars.

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1. TAX SYSTEM

A foreign corporation carrying on business in Québec is subject to Canadian and Québec income taxes on business income earned in Québec. Like the federal government, the Québec government administers and collects its own personal and corporate income taxes. In general, taxable income is computed the same way under both systems; however, Québec uses its tax system to provide businesses with incentives to stimulate the Québec economy. As a result, there are numerous tax measures that can be used as a source of financing.

1.1 Carrying on Business

Foreign investors wanting to carry on business in Québec can incorporate their business or set up a branch. A corporation is a separate legal entity that can be incorporated under the *Canada Business Corporations Act* or the *Companies Act* (Québec). A branch is a commercial establishment that is part of a corporation.

While, as a general rule, non-residents of Canada carry on business here through incorporated subsidiaries of foreign corporations, a large number do in fact use branches. The type of entity used to carry on business in Québec depends on the related legal, tax, economic and commercial consequences.¹

This brochure focuses primarily on tax measures applying to corporations carrying on business in Canada.

1.2 Non-Resident Income Tax

1.2.1 Carrying on Business Through a Corporation

In Canada, a corporation is taxed on its income from all sources independently from its shareholders. Federal non-resident tax must be withheld on any amount paid by the corporation to non-residents for dividends, interest, royalties or management fees.

The general withholding rate is 25%. However, Canada has signed tax treaties with most countries. These treaties reduce the rate to between 0% and 15%, depending on the type of payment and the country. The Canadian government also reduces the tax withheld on dividends paid to foreign corporations to 5% when the treaty includes a reciprocal measure for the other country. For example, the Canada-U.S. Tax Convention establishes the rate at 5% if the recipient of the dividend owns at least 10% of the corporation's voting rights.

1.2.2 Carrying on Business Through a Branch

A foreign corporation that carries on business in Canada through a branch is subject to corporate income tax in Canada on its taxable income attributable to that establishment. In addition to corporate income tax, a branch tax is payable, equal to 25% of the after-tax earnings not reinvested in the Canadian business. Branch tax is comparable to the dividend withholding tax that would be paid if a Canadian corporation repatriated profits as dividends paid to its non-resident shareholder. The rate is generally lower when there is a tax treaty between Canada and the corporation's country of residence. For example, the Canada-U.S. Tax Convention reduces the rate to 5% and also exempts the first \$500,000 of income earned in Canada.

¹ Particular attention should be paid to how Québec operations are financed so as not to run afoul of thin capitalization rules, which limit the interest deduction on a corporation's debt owing to certain non-resident persons when the debt is more than one and a half times the amount of the corporation's equity. The debt/equity ratio is 3:5 for non-resident corporations carrying on a business in Canada through a branch.

1.2.3 Withholding and Branch Tax Rates Based on Tax Treaties

The following table indicates the rates for the non-resident withholding tax on different types of payments and the branch tax for countries with which Canada has signed a tax treaty.

NON-RESIDENT WITHHOLDING TAX RATE (2014)					
	Dividend ¹	Interest ²	Royalty	Management Fee ⁴	Branch Tax
United States	5% or 15%	0%	0% or 10% ³	0%	5%
France	5% or 15%	10%	0% or 10% ³	0%	5%
United Kingdom	5% or 15%	10%	0% or 10% ³	0%	5%
Ireland	5% or 15%	10%	10%	0%	5%
Germany	5% or 15%	10%	10%	0%	5%

¹ Varies according to percentage of share ownership and type of entity that owns the shares.

² No withholding for payments at arm's length.

³ Varies according to nature of royalty payments.

⁴ No withholding if services are rendered in the country of the recipient of the amounts paid.

1.3 Investment Canada Act

Pursuant to the *Investment Canada Act*, the creation and acquisition of businesses by foreign investors normally require the filing of a notification or a pre-review by the federal authorities.

As a general rule, a notification must be filed each time an investor undertakes a new commercial activity in Canada and each time an investor acquires control of a Canadian business, unless the investment is a reviewable transaction. There are a number of variables that determine whether an investment is reviewable, including, in particular, the value of the assets of the Canadian business. For additional information, contact the Investment Review Division.²

2. CORPORATE TAXATION

A corporation that carries on business in Québec is subject to a combined general tax rate of 26.9%: 11.9% provincial and 15% federal. However, many corporations are entitled to various tax incentives, such as tax credits and tax holidays, which are described in Section 3.

2.1 Taxable Income

The starting point for determining a corporation's taxable income is the net income reported in its financial statements. Certain items then have to be added or deducted in order to comply with the tax laws. There are two types of differences between accounting income and taxable income. The first type includes certain accounting income or loss items not recognized for tax purposes in Canada, e.g. the non-taxable portion of capital gains. The second one includes timing differences with respect to the recognition of revenues and expenses for accounting and tax purposes, e.g. depreciation.

2.1.1 Capital Gains

In Canada, only 50% of the profit (capital gain) realized on the disposition of a property is included in a corporation's taxable income. Similarly, only 50% of capital losses are deductible. Furthermore, capital losses can only be deducted against capital gains. Capital losses that have not been deducted can be carried forward indefinitely to subsequent years or carried back to the three preceding years and applied against capital gains of those years.

² Investment Review Division in Ottawa, at 613 954-1887. Complete information can be found on the *Investment Canada Act* website at investcan.ic.gc.ca.

2.1.2 Depreciation

The tax deduction for depreciation is optional and is usually more generous than what is allowed by accounting principles. In most cases, depreciation rates are the same for federal and provincial purposes. Both governments have agreed to regularly review depreciation rates on the basis that improving the depreciation rate structure will increase business productivity.

In Canada, depreciable property is grouped into classes for which there are specific depreciation rates. Depreciation is calculated on the residual balance for the class, which means the amount that can be claimed is higher in the initial years.

The following table shows the most frequently used depreciation rates for federal and Québec purposes for 2014.

Type of Property	Federal and Québec ¹ (% of residual balance)
Buildings used for manufacturing and processing ²	10
Other non-residential buildings ²	6
Automobiles, pick-up trucks, trucks, tractors, trailers	30
Certain trucks used to carry merchandise	40 ³
Computers and related equipment ⁴	55
Infrastructure equipment for data systems ⁵	30
Software	100
Manufacturing machinery and equipment ⁶	50 Straight-line
Furniture and fixtures	20
Patent (limited or unlimited life)	25
Licence or permit (limited life)	Straight-line ⁷
Licence or permit (unlimited life)	7 ⁸

¹ For federal and Québec purposes, assets are generally grouped by class and depreciation is calculated on the balance for the class. An asset cannot be depreciated for tax purposes before the earlier of the date it is used or 24 months after it has been acquired. Moreover, acquisitions during the year are generally only eligible for one-half of the available deduction.

² The building must not have been acquired or used by anyone before March 19, 2007 (4% for property not eligible for the enhanced rate).

³ In Québec, 60% for new vehicles acquired after March 30, 2010. Furthermore, subject to certain conditions, for new vehicles fuelled by liquefied natural gas (acquired after March 30, 2010, and before January 1, 2016), an additional deduction of 85% of the amount deducted on account of the 60% capital cost allowance can be claimed.

⁴ Related equipment includes system software, i.e. the general systems that make it possible to run applications and manage and coordinate the various computer operations, in particular the inputting and extraction exercises between the keyboard, CRT screen, printer, disk drives and peripheral equipment.

⁵ Data system infrastructure supports advanced telecommunications applications, such as email, Web research and hosting, instant message handling and audio and video functions based on the Internet protocol.

⁶ Measure applicable to equipment acquired on or after March 19, 2007, and before 2016 (30% of residual balance before and after these dates).

⁷ Depreciable over the useful life of the licence or permit.

⁸ 75% of cost is depreciable.

2.2 Tax Rates

2.2.1 Canada

A corporation that carries on business in Canada is subject to federal and provincial corporate income tax. Consequently, the corporation has to allocate its income among the provinces where it has an establishment. For federal and Québec purposes, the tax rate on a corporation's business varies depending on whether the corporation is eligible for the small business deduction (SBD). The basic tax rate is 15% for federal purposes. The rate is 11% on the first \$500,000 of active business income eligible for the SBD. In Québec, the basic rate is 11.9%. The rate is 8% on the first \$500,000 eligible for the SBD. To qualify for the SBD, a corporation has to be a Canadian-controlled private corporation, i.e. a private corporation that is resident in Canada and of which at least 50% of the voting shares are owned by Canadian residents. It must also have a taxable capital (including the taxable capital of its associated corporations) of less than \$15 million. The tax rate for a corporation that carries on business in Québec is therefore 26.9%. The rate is 19% on its active business income eligible for the SBD.

In certain provinces, businesses that carry on manufacturing and processing activities, including manufacturing businesses, are subject to a lower tax rate on their manufacturing and processing profits (MPP).

The following table compares the basic tax rates on corporate business income for companies in Québec with certain Canadian provinces.

BASIC TAX RATE ON BUSINESS INCOME (2014 Basic Tax Rate)		
	%	Combined %
Federal	15.0	
Provincial		
• Alberta	10.0	25.0
• British Columbia	11.0	26.0
• Manitoba	12.0	27.0
• New Brunswick	12.0	27.0
• Nova Scotia	16.0	31.0
• Ontario	11.5 ¹	26.5
• Québec	11.9 ²	26.9

¹ The rate for manufacturing businesses is 10%.

² The rate for manufacturing small and medium-sized businesses eligible for the SBD is 6% as of June 5, 2014, and 4% as of April 1, 2015.

2.2.2 United States

In the United States, the federal government, most of the States and even certain cities levy corporate income tax. The first table shows the basic federal tax rate applicable to non-manufacturing businesses based on their taxable income. The second table shows the effective rates in a few U.S. States and cities for manufacturing businesses.

U.S. BASIC FEDERAL CORPORATE TAX RATE (2014) (Non-Manufacturing)	
Taxable Income (US\$)	Basic Federal Tax
\$50,000 or less	15% of taxable income
\$50,001 – \$75,000	\$7,500 + 25% on next \$25,000
\$75,001 – \$100,000	\$13,750 + 34% on next \$25,000
\$100,001 – \$335,000	\$22,250 + 39% on next \$235,000
\$335,001 – \$10,000,000	\$113,900 + 34% on next \$9,665,000
\$10,000,001 – \$15,000,000	\$3,400,000 + 35% on next \$5,000,000
\$15,000,001 – \$18,333,333	\$5,150,000 + 38% on next \$3,333,333
\$18,333,334 or more	35% of taxable income

EFFECTIVE U.S. CORPORATE TAX RATES¹ (2014) (Manufacturing Income)					
	Federal²	State	Selected Cities (Certain States)	Total	Outside Reference City
	%	%	%	%	%
Alabama	29.78	5.92	–	35.70	–
California	29.03	8.84	–	37.87	–
North Carolina	29.94	6.00	–	35.94	–
South Carolina	30.26	5.00	–	35.26	–
Delaware	29.08	7.92	–	37.00	–
Georgia	29.75	6.00	–	35.75	–
Illinois	28.82	8.65 ³	–	37.47	–
Massachusetts	29.05	8.00 ⁴	–	37.05	–
Michigan	29.62	6.00 ⁵	1.00 ⁶	36.62	35.94
New Jersey	28.70	9.00 ⁷	–	37.70	–
New York	26.39	7.10	10.05 ⁸	43.54	36.69
Ohio	31.21	0 ⁹	2.00 ¹⁰	33.21	31.85
Pennsylvania	26.62	9.09	6.43 ¹¹	42.14	38.66
Tennessee	29.58	6.50	–	36.08	–
Texas	31.50	1.00 ¹²	–	32.50	–
Virginia	29.94	5.46	–	35.40	–
Washington	31.85	–	–	31.85	–

¹ Based on the basic corporate federal tax rate of 31.85%. The rates shown do not include business or other capital taxes.

² State and city taxes are generally deductible from U.S. federal income tax.

³ The corporate income tax rate is 7%. This rate will be reduced to 5.35% as of January 1, 2015. In addition, a tax on corporate capital of 2.5% applies to corporations other than “S corporations.”

⁴ A tax on corporate capital calculated at the rate of 0.26% must be added to the 8.00% tax.

⁵ Since January 1, 2012, the State of Michigan levies a corporate income tax rate at the rate of 6.00% to replace the “MBT.”

⁶ Several cities in the State of Michigan levy an income tax, which is generally 1%. However, the cities of Saginaw and Grand Rapids levy taxes of 1.5% whereas the city of Highland Park levies taxes of 2%.

⁷ The rate indicated above applies to the taxable income exceeding \$100,000. Gradual rates apply to taxable income under \$100,000.

⁸ New York City. A 17% surtax applies to the State tax (7.1%) for the metropolitan New York area in addition to the 8.85% city rate. The three rates may not apply to all corporations.

⁹ The corporate franchise tax has been eliminated for most business corporations starting with report year 2010. However, the Commercial Activity Tax applies to gross income at a rate of 0.26% since January 1, 2010.

¹⁰ Numerous cities in Ohio have a corporate income tax. The city rates vary between 0.5% and 2.85%. The rate shown above is for Cleveland. The tax rate for Dayton is 2.25%.

¹¹ Philadelphia. There is a 0.1415% tax on gross revenue in addition to income tax.

¹² The State imposes a Franchise Margin Tax at a rate of 1%. The “Margin” equals the lesser of the following three margins: 1) total revenues minus cost of goods sold; 2) total revenues less remuneration; and 3) 70% of total revenues. Since January 1, 2014, a state tax exemption applies to entities having taxable income of less than \$600,000.

2.3 Operating Losses

In computing its income for a year, a corporation can deduct operating losses incurred in the year up to the amount of its taxable income. Any unused loss can be carried back three years or forward 20 years.

Unlike other systems, including that of the U.S., Canada’s tax system does not allow corporate groups to file consolidated tax returns. However, with proper planning, it may be possible to use operating losses within a corporate group.

2.4 Payroll Taxes and Employer Obligations

As an employer, a corporation carrying on business in Québec must remit payroll taxes and assume certain other obligations in respect of its employees pursuant to the *Act respecting labour standards*.

Québec employers are subject to the following payroll taxes and obligations in 2014:

PAYROLL TAXES	
Québec Pension Plan	5.175% of earnings subject to contribution less a \$3,500 basic exemption (maximum earnings subject to contribution are \$52,500 per employee)
Health Services Fund (HSF)	4.26% of total payroll ¹
Occupational Health and Safety	The average contribution rate varies according to the type of business (maximum insurable is \$69,000 per employee)
Labour Standards Commission	0.08% of payroll (maximum insurable is \$69,000 per employee)
Employment Insurance	2.142% of insurable salary (maximum insurable is \$48,600 per employee)
Québec Parental Insurance Plan	0.782% of insurable salary (maximum insurable is \$69,000 per employee)
Training	Employers are required to spend 1% of their Québec payroll on employee training ²
OBLIGATIONS UNDER THE ACT RESPECTING LABOUR STANDARDS	
Statutory holidays	8 days
Annual vacation	2 weeks after 1 year, 3 weeks after 5 years (i.e. 4% of annual income after 1 year and 6% of annual income after 5 years)
Minimum wage	\$10.35/hour (tip workers: \$8.90/hour) ³
Overtime	1.5 times the hourly rate after 40 hours/week

¹ Contribution rate for an employer whose total payroll is greater than \$5 million is 4.26%. If total payroll is equal to or less than \$1 million, the rate is 2.7%. When it is between \$1 million and \$5 million, the rate varies between 2.7% and 4.26%. The total payroll used to determine an employer's contribution to the HSF is equal to the total wages paid by the employer and any associated employer worldwide. A reduction in HSF contributions is granted until 2020 in respect of the increase in payroll attributable to the hiring of certain specialized employees by an employer whose payroll does not exceed \$5 million.

² In Québec, if an employer fails to spend 1% of its total payroll on training, it has to pay a contribution equal to the difference between 1% of its total payroll and the amount spent on training to the Workforce Skills Development and Recognition Fund. Employers whose total payroll in Québec is less than \$1 million are not subject to the *Act to promote workforce skills, development and recognition*. Lastly, employers who have a certificate attesting to the quality of their training initiatives (*certificat de qualité des initiatives de formation*) are not required to report their training initiatives annually to Revenu Québec.

³ Rates in force since May 1, 2014.

3. TAXATION AS A SOURCE OF FINANCING

In this era of globalization, corporations must be more creative than ever and seize every opportunity that comes their way. Management therefore has to identify not only business opportunities but also available sources of financing. The challenge is to optimize available tax measures while taking into account the corporation's tax, financial and commercial objectives.

The text below describes various corporate tax measures in two main areas, i.e. investment and job creation. They have been grouped under seven categories:

- Scientific research and experimental development;
- Manufacturing sector;
- Natural resources sector;
- Development of e-business;
- Cultural industry and multimedia;
- Financial services sector; and
- Other tax measures.

Eligibility

As a general rule, corporations carrying on business in Québec or elsewhere in Canada and subsidiaries and branches of foreign corporations are eligible for the various tax measures described herein. However, certain tax measures are only available to private corporations or Canadian-controlled private corporations. A private corporation is a corporation that is resident in Canada and that is not a public corporation or a corporation controlled by one or more public corporations. A corporation is Canadian-controlled if Canadian residents own at least 50% of its voting shares. Thus, a non-resident corporation could incorporate a new corporation in collaboration with a Canadian corporation and obtain the tax benefits available to Canadian-controlled corporations.

Québec tax credits cannot be accumulated in respect of a single activity. In addition, expenditures must be reduced by any government or non-government assistance received. The assistance given to an enterprise often depends on its size, taking into account all of the corporations in the same group.

To benefit from the different tax measures, a corporation generally has to file a form with its income tax return. Furthermore, any claim, whether in the form of a tax credit or a tax holiday, has to be certified by the tax authorities. In certain cases, corporations have to request visas, certificates or attestations of eligibility from the following government organizations or departments:

Organizations and Departments	Tax Measures	For Additional Information
Investissement Québec	<ul style="list-style-type: none">• Development of e-business• Multimedia productions• Gaspésie and certain maritime regions of Québec• Aluminum Valley• Market diversification for Québec manufacturing companies• R&D salary related to biopharmaceutical activities	1 866 870-0437 www.investquebec.com
Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie	<ul style="list-style-type: none">• Scientific research and experimental development¹• Commercialization of intellectual property• Foreign researchers or experts	418 266-3363 www.mesrst.gouv.qc.ca
Ministère des Finances et de l'Économie du Québec	<ul style="list-style-type: none">• Financial services sector• Large investment projects• Design	1 866 463-6642 www.economie.gouv.qc.ca
Société de développement des entreprises culturelles	<ul style="list-style-type: none">• Cultural industry	514 841-2200 www.sodec.gouv.qc.ca

¹ The Minister issues eligibility visas for private partnership pre-competitive research projects as well as eligibility certificates for foreign researchers and specialists. The credit for expenditures incurred under a research contract with a research centre or a university requires an advance ruling from the Québec Minister of Revenue.

3.1 Scientific Research and Experimental Development

In an economy based on know-how and competitiveness, investment in scientific research and experimental development (R&D) is essential. There are considerable benefits to performing R&D in Québec because of the tax measures offered by the governments of Québec and Canada. The combined measures allow businesses to cut their R&D costs by nearly 50%, or more.

It is therefore not surprising that Canada, and in particular Québec, is recognized internationally as being one of the best locations for doing R&D.

In Québec, there are a number of credits for stimulating R&D:

- R&D salary: this is the main credit to encourage expenditures on salaries or subcontractor fees.
- University R&D: this credit is granted for research contracts signed with universities and eligible research centres.
- R&D consortium: this credit covers contributions paid to a research consortium in order to encourage businesses in different industries to work together to do research.
- R&D private partnership: this credit is for groups of private businesses doing pre-competitive research.

3.1.1 What Is R&D?

A corporation is doing R&D when it does pure or applied research or experimental development and support work that satisfies the following three criteria:

Scientific or technological advancement

- The R&D must provide information that advances the understanding of scientific or technological relationships.

Scientific or technological uncertainty

- There must be uncertainty as to the methodology employed to resolve a problem or achieve objectives or results. Technological uncertainty therefore imposes a need for experimentation or analysis.

Scientific and technical content

- The objectives of an R&D project must be formulated during the initial stages of the project. Moreover, the method of experimentation or analysis to be followed to dissipate the scientific or technological uncertainties must be clearly stated. The results of the R&D must be well documented.

R&D Activities

R&D often includes the following activities:

- Developing a prototype or modifying production equipment to improve its performance, reliability or precision;
- Using a computer to automate certain decision-making operations;
- Making modifications to a manufacturing process that go beyond current practice in the corporation's field of activity;
- Adapting a technology used in another field or designing one for a different application.

Non-R&D Activities

The R&D tax measures are not available to finance the following activities:

- Market research or sales promotion;
- Quality control or routine testing of materials, devices, products or processes;
- Research in social or human sciences;
- Prospecting, exploring or drilling for minerals, oil or natural gas and the production thereof;
- Commercial production of a material, device or new or improved product and the commercial use of a new or improved procedure;
- Style changes;
- Routine data collection.

3.1.2 Tax Measures

For tax purposes, a corporation that does R&D can deduct all of its current expenditures and certain capital expenditures that it incurred before January 1, 2014.³ It can also deduct amounts paid to subcontractors relating to R&D activities performed on its behalf. It can also elect to defer the deduction for the expenditure indefinitely.

There are also generous tax credits that vary according to the corporation's status, size and taxable income. All the corporations in a group are taken into account in determining size and taxable income.

A business doing R&D will also find it easier to attract foreign researchers and specialists to Québec because of the tax holiday to which they are entitled.

³ Since January 1, 2014, capital expenditures are no longer considered eligible R&D expenditures. These expenditures are generally deductible according to the capital cost allowance of their categories when they are not recognized as eligible R&D expenditures.

Québec Tax Credits

The following expenditures are eligible for the Québec R&D tax credits:

- Salaries of employees who worked directly on the project;
- One-half of the fees paid to a subcontractor at arm's length who performed R&D on behalf of the corporation in Québec;⁴
- 80% of the total eligible R&D expenditures incurred in connection with a research contract with a university or eligible research centre;⁵
- Contributions to a research consortium;
- Expenditures made in connection with a private partnership pre-competitive research project.

The basic Québec tax credit⁶ is 14% of R&D expenditures. This rate is increased to 28% for contracts with a research centre, contributions paid to a research consortium and expenditures incurred in connection with a private partnership pre-competitive research project, regardless of the size of the corporation. The tax credit is always refundable, i.e. a corporation can receive its tax credit even if it did not pay any income tax.

Federal Tax Credits

The following expenditures are eligible for the federal R&D tax credits provided the activities are carried on in Canada:⁷

Current Expenditures

- Salaries of employees who worked directly on the project;
- 80% of fees paid to a subcontractor at arm's length who performed R&D for the corporation;⁸
- Payments to a certified association, university, college, research institute or other certified body;⁹
- Cost of materials used in connection with the project;
- Leasing cost of equipment used during the execution of the project and incurred before January 1, 2014;
- Overhead expenses directly related to the research.¹⁰

Capital Expenditures

- Capital cost of property, such as equipment, provided that 90% of the property is used in connection with the R&D project and that the property is acquired before January 1, 2014.

The basic tax credit⁶ is 15% of the R&D expenditures and is not refundable. The unused balance can be carried back three years and forward 20 years.

Québec Tax Credit for SMBs

The tax credit for SMBs is 30% on the first \$3 million of eligible expenditures per year. An SMB is a Canadian-controlled private corporation whose assets, combined with those of all the corporations in the group, are less than \$50 million as presented in their financial statements. If the assets exceed \$50 million, but are less than \$75 million, the rate is gradually reduced.

⁴ For subcontractors who are not at arm's length, the expenditure amount eligible for the credit is limited to the R&D salaries paid by the subcontractor.

⁵ See Appendix 5.

⁶ SMBs benefit from an increased credit (see below in this section).

⁷ As a general rule, R&D expenditures must be incurred in Canada in order to be eligible for a federal tax credit. However, certain salaries paid to Canadian employees carrying out R&D abroad are eligible for the R&D credit. Eligible salaries are limited to 10% of labour expenditures incurred in Canada for R&D work.

⁸ For subcontractors who are not at arm's length, the expenditure amount eligible for the credit is limited to the R&D salaries paid by the subcontractor. Since January 1, 2014, the capital expenditure amount incurred by a subcontractor is excluded from the contractual payment calculation that gives entitlement to this credit.

⁹ Certified Québec entities that have agreed to be publicly identified are:

- Natural Gas Technologies Centre Inc.;
- Research Institute of McGill University – Montréal Children's Hospital;
- Institut de recherche et de développement en agroenvironnement.

¹⁰ To compute overhead, the corporation may use expenditures actually incurred, or the proxy method pursuant to which 55% of the salaries of employees who worked directly on the project is used.

TAX CREDIT ON R&D EXPENDITURES FOR AN SMB – QUÉBEC		
Assets of Corporate Group (in millions of dollars)	Expenditures up to \$3,000,000 (in %)	Expenditures in Excess of \$3,000,000 (in %)
Less than 50.0	30.0	14.0
55.0	26.8	14.0
60.0	23.6	14.0
62.5	22.0	14.0
65.0	20.4	14.0
70.0	17.2	14.0
75.0 or more	14.0	14.0

Federal Tax Credit for SMBs

The tax credit for SMBs is increased to 35% on the first \$3 million of eligible expenditures per year. An SMB is a Canadian-controlled private corporation whose taxable income and taxable capital as well as the taxable income and taxable capital of all the corporations in the group for the previous taxation year do not exceed \$500,000 and \$10 million, respectively. If taxable income is greater than \$500,000, but not more than \$800,000, or if taxable capital used in Canada is greater than \$10 million, but not more than \$50 million, the \$3-million limit of expenditures eligible for the 35% credit is gradually reduced.

TAX CREDIT ON R&D EXPENDITURES FOR AN SMB – FEDERAL			
		Expenditures up to Limit (in %)	Expenditures in Excess of Limit (in %)
2013	• Current expenditures	35	20
	• Capital expenditures	35	20
Since 2014	• Current expenditures	35	15
	• Capital expenditures	0	0

PERCENTAGE OF CREDIT REFUNDABLE FOR AN SMB – FEDERAL			
		Expenditures up to Limit (in %)	Expenditures in Excess of Limit (in %)
2013	• Current expenditures	100	40 ¹
	• Capital expenditures	40	40 ¹
Since 2014	• Current expenditures	100	40 ¹
	• Capital expenditures	0	0

¹ If the taxable income of a corporate group for the preceding year is more than \$500,000, the credit refund is nil.

Examples are shown in Appendices 1 to 3.

3.1.3 Tax Holiday for Foreign Researchers and Specialists

Foreign individuals who have expertise in certain specialized areas of activity and who settle in Québec to work are entitled to a tax holiday. The tax holiday is in the form of a tax exemption for a maximum of five consecutive years on a portion of the salary received by these individuals. Therefore, in computing their income, such individuals may deduct 100% of their salary for the first and second years, 75% for the third year, 50% for the fourth year and 25% for the fifth year.

The following researchers and specialists, who are not resident in Canada immediately before their employment contract is signed, are entitled to the tax holiday:

- A researcher specializing in pure or applied sciences who works for a person carrying on a business in Canada and who performs R&D in Québec;
- A specialist either in the field of management or financing of innovation activities or in the marketing abroad or transfer of the latest technology, who is working for a person carrying on a business in Canada and performing R&D in Québec.

3.2 Manufacturing Sector

There are five important tax aspects to the Québec government's strategy to strengthen the manufacturing sector in Québec:

- The tax credit for the acquisition of manufacturing and processing equipment;
- The tax credit for job creation;
- The tax credit for workforce skills development;
- The tax credit for market diversification for Québec manufacturing companies; and
- Additional deduction for transportation costs of manufacturing companies.

In addition to these measures, which are exclusive to Québec, there is the accelerated CCA for manufacturing and processing equipment as well as the increase in the CCA rate regarding buildings used for manufacturing or processing for both federal and Québec purposes.

Finally, the federal government also gives an investment tax credit for the acquisition of a building and manufacturing and processing equipment by businesses carried on in the Gaspé peninsula, among other regions.

3.2.1 Tax Credit for the Acquisition of Manufacturing and Processing Equipment

In order to spur manufacturing investments, an investment tax credit is granted for the acquisition of manufacturing and processing equipment¹¹ and production computer equipment before January 1, 2018.¹² The tax credit rate is determined based on the location where the investment is made and the corporation's consolidated paid-up capital. However, an investment expenditure attributable to the execution of large investment projects (see section 3.7.1) does not give rise to entitlement to the tax credit for investments in manufacturing and processing equipment.

Investment Tax Credit Rate Based on Location Where the Investment Is Made	Basic Rate	Enhanced Rate
Intermediate zone Saguenay–Lac-Saint-Jean, Mauricie, Vallée-de-la-Gatineau CM, Pontiac RCM in Outaouais, Antoine-Labelle RCM in the Laurentians, Rivière-du-Loup RCM, Rimouski-Neigette RCM, Témiscouata RCM, Kamouraska RCM and Les Basques RCM	4%	16%
Bas-Saint-Laurent (eastern portion) La Matapédia RCM, Matane RCM and La Mitis RCM	4%	24%
Remote resource region Abitibi–Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine	4%	32%
Other	4%	8%

Enhanced Rate

In order for a corporation to benefit from enhanced rates, its consolidated paid-up capital from the previous year must not exceed \$250 million. Where a corporation's paid-up capital is over \$250 million without exceeding \$500 million, the enhanced rates will be reduced on a straight-line basis to 4%.

Refundable Tax Credit

The refundable tax credit is also determined based on the corporation's consolidated paid-up capital. Therefore, the tax credit is fully refundable when the corporation's paid-up capital does not exceed \$250 million, whereas it is partly refundable when paid-up capital is between \$250 million and \$500 million. The portion of the tax credit that cannot be refunded or used to reduce the corporation's income tax can be carried forward over 20 years and carried back three years.

\$75-Million Cumulative Limit

A maximum of \$75 million of eligible investments made by a corporation over a three-year period can qualify for an increased rate, refundability or both of these benefits.

¹¹ The manufacturing and processing equipment must be new and used within a reasonable time for a period of at least 730 days, solely in Québec.

¹² Property used primarily during ore smelting, refining or hydrometallurgy activities executed abroad or from a mineral resource located in Canada, other than ore from a gold or silver mine, is also eligible for the credit.

3.2.2 Tax Credit for Job Creation

Two refundable tax credits encouraging job creation in Québec's resource regions are available to new corporations.¹³ They are:

- The tax credit for the Aluminum Valley (TCAV); and
- The tax credit for Gaspésie and certain maritime regions of Québec (TCGMR).

Generally, the rate of the tax credit for job creation is equal to 18% of the payroll increase¹⁴ attributable to eligible employees of an eligible corporation operating in a targeted region that carries on a recognized business.¹⁵ Eligible corporations are entitled to this credit up to December 31, 2015. Eligible activities vary depending on the region where the business is carried on.¹⁶

Regions	Eligible Corporations	Eligible Activities
Aluminum Valley		
Saguenay–Lac-Saint-Jean	Corporations that carry on eligible activities or start to carry on eligible activities no later than during the 2015 calendar year and that create at least three full-time jobs.	<ul style="list-style-type: none"> • Manufacturing of finished or semi-finished products from aluminum that have undergone initial processing. • Conversion or recycling of waste and residues from aluminum processing. • Marketing, design or engineering activities that are incidental to these activities.
Gaspésie and Maritime Regions of Québec¹		
Gaspésie–Îles-de-la-Madeleine Côte-Nord Bas-Saint-Laurent	Corporations that carry on eligible activities or start to carry on eligible activities no later than during the 2015 calendar year and that create at least three full-time jobs.	<ul style="list-style-type: none"> • Processing of sea products. • Manufacturing and processing of finished or semi-finished marine biotechnology products. • Production of wind power and wind turbine manufacturing. • Marine aquaculture. • Manufacturing and processing activities of finished or semi-finished products from peat or slate. • Marketing activities that are incidental to these activities. • All manufacturing activities² carried on in the administrative region of Gaspésie–Îles-de-la-Madeleine

¹ Activity eligibility criteria vary from one region to another.

² For reference purposes, eligible activities are generally activities included under codes 31, 32 and 33 of the North American Industry Classification System (NAICS codes).

¹³ A third credit, the tax credit for processing activities in the resource regions, is only available for corporations that began to carry on their recognized business no later than March 31, 2008.

¹⁴ Payroll increase must be calculated by comparing the current calendar year to the reference calendar year for all the corporations in a group in Québec. Only employees who spend at least 75% of their time on eligible activities are considered in the payroll calculation.

¹⁵ A recognized business is a business regarding which an eligibility certificate has been issued by Investissement Québec.

¹⁶ Credits are subject to the issuance of annual certificates by Investissement Québec, among other conditions.

The following table illustrates the different rules applicable to the tax credits for job creation in Québec's resource regions:

	Tax Credit	Reference Year
Tax credit for the Aluminum Valley (TCAV)		
All corporations no matter when they began carrying on their recognized business	20% from 2010 to 2013 18% in 2014 16% in 2015	Calendar year preceding the one when it began to carry on a recognized business ¹
Tax credit for Gaspésie and certain maritime regions of Québec (TCGMR)		
All corporations no matter when they began carrying on their recognized business	20% from 2010 to 2013 18% in 2014 16% in 2015	Calendar year preceding the one when it began to carry on a recognized business ¹
Specific situation – processing of sea products	20% from 2010 to 2013 18% in 2014 16% in 2015	Not applicable ²
Specific situation – marine biotechnology and sea farming	40% from 2010 to 2013 36% in 2014 32% in 2015	Not applicable ²

¹ If the need arises, it is possible to elect as a reference year the calendar year preceding the one regarding which the corporation made the election to claim the ITC for a taxation year ending after March 13, 2008, and for subsequent taxation years.

² The tax credit is calculated on the total payroll paid to eligible employees and not just the increase in this payroll over a reference year.

3.2.3 Tax Credit to Promote Workforce Skills and Development

An employer operating in the manufacturing,¹⁷ forestry¹⁸ or mining¹⁹ sector may benefit from a refundable tax credit equal to 24% of training expenses incurred before January 1, 2016, to train employees who mainly carry out or supervise tasks attributable to an eligible activity.²⁰

The training expenditure eligible for the 24% tax credit corresponds to the total cost of the training for which an employee is registered in addition to the salary paid to the employee during the training period without, however, exceeding twice the cost of the training.²¹

3.2.4 Tax Credit for Market Diversification for Québec Manufacturing Companies

Québec manufacturing companies²² that plan on marketing their products outside of Québec can benefit from a refundable tax credit equal to 24% of eligible certification expenses incurred before January 1, 2016,²³ with respect to eligible goods up to a maximum credit of \$36,000.

An eligible good means a good made in Québec by the corporation for which it obtained a certificate certifying the compliance of the good with the legal standards applicable outside Québec where the corporation plans to commercialize the good.

To be eligible for this credit, a corporation must obtain an eligibility certificate from Investissement Québec confirming that at least 75% of its activities are eligible. Eligible activities include certain activities grouped under one or more of the following codes of the North American Industry Classification System (NAICS):

- 321 Wood Product Manufacturing
- 326 Plastics and Rubber Products Manufacturing
- 331 Primary Metal Manufacturing
- 332 Fabricated Metal Product Manufacturing
- 333 Machinery Manufacturing
- 335 Electrical Equipment, Appliance and Component Manufacturing

¹⁷ Eligible activities are the same as those included under codes 31, 32 and 33 of the North American Industry Classification System (NAICS codes).

¹⁸ The activities related to the forestry sector are the same as those included under NAICS code 113.

¹⁹ The activities related to the mining sector are the same as those under NAICS codes 211 and 212.

²⁰ An employee who owns, directly or indirectly, at least 10% of the issued shares of any class of the capital stock of the company or an associated company is not eligible.

²¹ In the case of employers subject to the *Act to promote workforce skills, development and recognition*, the training expense eligible for the tax credit is equal to the lesser of:

- The training expense eligible for the tax credit; and
- The excess of training expenses incurred by the employer over the required expense under the Act.

²² Corporations with assets for the preceding fiscal year that are greater than \$50 million are not eligible for the credit.

²³ The fees must be incurred before January 1, 2016, but the certification must be obtained before January 1, 2017.

3.2.5 Additional Deduction for Transportation Costs of Remote Manufacturing SMBs

To take account of the higher transportation costs due to the remote location of certain regions compared with Québec's major urban centres, an additional deduction in calculating net income is granted to Canadian-controlled private corporations whose paid-up capital is less than \$15 million.

The additional deduction can reach 6% of a company's gross income for a tax year. To summarize, the amount of the additional deduction that remote manufacturing small and medium-sized businesses may benefit from varies according to several criteria, such as the region where the company performs its manufacturing activities, the level of its manufacturing activities, the company's size, its gross income for the tax year and a regional cap.

3.2.6 Investment Tax Credit (Federal)

Corporations doing business in the Atlantic Provinces, the Gaspé peninsula or a prescribed offshore region are eligible for a 10% investment tax credit on the cost of new prescribed buildings²⁴ or new prescribed machinery and equipment²⁵ acquired primarily to be used in certain activities, including:

- Manufacturing or processing goods for sale or lease;
- Logging, farming or fishing; and
- Exploring for or developing certain natural resources.

This credit is phased out in respect of assets used in oil, gas and mining activities. Therefore, the credit is 5% for such assets acquired in 2014 and 2015 and will no longer apply to assets acquired for such activities as of 2016.

3.3 Natural Resources

The economic growth of emerging countries and the relative scarcity of natural resources have led to an explosion in the need for raw materials and their prices over the last few years. This is why the Québec government has implemented the Plan Nord.

The Plan Nord represents more than \$80 billion in public and private investments over a period of 25 years across a vast region of over one million square kilometres of natural resources.²⁶ The plan aims to enhance the potential of the region's energy sector; mineral, forest and wildlife resources; tourism industry; and biofood production sector.

The vast scale of the Plan Nord offers numerous business opportunities in the natural resource sector as well as various other economic activity sectors. Implementing the Plan Nord program will increase the demand for goods and services related to the various natural resource sectors and will benefit entities that supply contractors. Additionally, exploiting natural resources should stimulate resource processing and promote partnerships further down in the resource development supply chain.

3.3.1 Québec Mining Tax Act

A mine operator is required to pay mining duties corresponding to the greater of its minimum mining tax or its mining tax on its annual profit calculated according to progressive rates. The tax base of Québec's mining duties regime is based on the notion of mining profit and the "mine-by-mine" principle. Briefly, an operator's annual profit for the purposes of the mining tax represents the gross value of its annual output from a mine, less certain expenses and allowances. The tax rate used to calculate the mining tax on annual profit is determined in accordance with the operator's profit margin. The rates are the following, according to the profit margin segment:

Profit Margin Segment	Applicable Rate ¹
0% to 35% segment	16%
35% to 50% segment	22%
50% to 100% segment	28%

¹ For a fiscal year beginning after December 31, 2013.

²⁴ A prescribed building includes a building or a grain elevator included in Class 1, 3, 6, 8 or 20 and erected on land owned or leased by the taxpayer.

²⁵ The definition of "prescribed machinery and equipment" is very broad and includes the majority of capital expenditures included in Classes 8, 9, 10, 15, 21, 22, 24, 27, 28, 29, 34, 39, 40 and 43, electrical generating equipment included in Classes 1 and 2 and vessels included in Class 7. Since March 29, 2012, the electricity generation equipment described in Classes 17 and 48 and the clean energy generation and energy conservation equipment described in Classes 43.1 and 43.2 are also eligible for the credit.

²⁶ The Plan Nord region is a large, rich and diversified area north of the 49th parallel. This area:

- has one of the greatest freshwater reserves in the world;
- represents over three-quarters of Québec's hydroelectric production capacity with similar unexploited hydraulic, wind and photovoltaic resource potential;
- includes over 200,000 km² of Québec's commercial forests;
- accounts for all of Québec's nickel, cobalt, elements of the platinum group, zinc, iron ore and ilmenite, and a major portion of its gold production. The area also contains lithium, vanadium and rare earth elements.

The minimum mining tax is an *ad valorem* royalty calculated on the total output value at the mine shaft head for each mine operated. For a particular fiscal year, the operator's minimum tax is:

- 1% of the first \$80 million of the value of the production at the mine shaft head for all mines operated;
- 4% on the value at the mine shaft head in excess of \$80 million for all mines operated.

An operator's output value at the mine shaft head in respect of a mine it operates is calculated on the basis of the operator's gross value of annual output from the mine. The aim of this calculation, by means of inclusions and deductions, will be to determine the value of the mineral substance from the mine once extracted from Québec soil but before it is processed by the operator. The output value at the mine shaft head may in no case be less than 10% of the operator's gross value of annual output from that mine.

The minimum mining tax paid for a fiscal year may be carried forward to be applied against the mining tax on future profit as a non-refundable minimum mining tax credit. Lastly, when an operator sustains a loss, it may obtain a credit on duties refundable for losses²⁷ in respect of exploration²⁸ and pre-production development expenses. This tax credit is also deductible from the operator's minimum mining tax payable.

3.3.2 Resource Tax Credit

A corporation that carries on a business in Québec and incurs eligible expenses may benefit from a refundable tax credit relating to resources. The tax credit rate varies between 12% and 31% according to the type of resource, where the expenses are incurred and the type of corporation.

Eligible expenses²⁹ include:

- Exploration expenses;
- Expenses relating to natural resources (cut stones: granite, sandstone, limestone, marble and slate) where the resources are used for the production of dimension stones, cemetery monuments, building stones, paving stones, curbing and roof tiles; and
- Canadian renewable energy and energy savings expenses incurred in Québec.

Refundable Resource Tax Credit Rates		
Tax credit for eligible expenses	Corporations not operating any mineral resource or oil and gas well ¹	Other corporations
Expenses relating to mining resources, oil and gas:		
• Mid-North and Far North of Québec	31%	15%
• Elsewhere in Québec	28%	12%
Expenses relating to renewable energy and energy savings	28%	24%
Expenses relating to other natural resources (cut stones)	12%	12%

¹ These corporations must not be related to a corporation exploiting a mineral resource or operating an oil or gas well.

3.4 Development of E-Business

In order to encourage the development and expansion of information technologies throughout Québec, the Québec government has created a refundable tax credit to develop e-business. This tax credit is equal to 24% of the eligible wages incurred before January 1, 2026, up to an annual limit of \$20,000 per employee.³⁰

²⁷ The credit has been 16% since January 1, 2012.

²⁸ 50% of the operator's incurred exploration expenses are eligible for this credit.

²⁹ The expenses which a corporation has relinquished with respect to a share in Québec's flow-through share system are not eligible for this credit.

³⁰ Which represents a maximum eligible salary of \$83,333 per employee calculated on an annual basis.

To be entitled to this credit, a corporation must have an establishment in Québec where it carries on a business in the information technologies sector.³¹ Eligible activities include, in particular:

- Information technologies consulting services;
- Development, integration and maintenance of information systems and technology infrastructures;
- Design and development of e-commerce solutions; and
- Development of security and identification services related to e-commerce activities.

However, the following activities do not represent eligible activities:

- Operation of an e-business solution;
- Operation of a customer contact centre;
- Activities not related to e-business; and
- Management or operation of information systems, applications or infrastructures stemming from e-business activities.

3.5 The Cultural Industry and Multimedia

For several years now, the Québec government has striven to promote Québec's cultural identity and the production of multimedia titles by granting several different tax credits. Moreover, Québec is recognized as one of the best locations in the world for video game and interactive content development. Due to its qualified labour, the numerous specialized companies in this field and major incentive programs, Québec is an essential hub for digital entertainment.

3.5.1 Cultural Industry Tax Credits³²

The government assumes a part of the cultural industry's financing through grants, loans and loan guarantees. The government of Québec also grants financial assistance to corporations in this field by means of the following tax credits:

- tax credit for Québec film or television productions;³³
- tax credit for film production services;³⁴
- tax credit for the production of sound recordings;
- tax credit for the production of performances;
- tax credit for the production of multimedia events or environments staged outside Québec;
- tax credit for film dubbing; and
- tax credit for book publishing.

3.5.2 Tax Credit for Multimedia Titles

A refundable tax credit of 21% to 30% is granted to corporations that produce eligible multimedia titles. A corporation can claim a credit for each of the titles it produces or for all of its activities when all or substantially all³⁵ of its activities consist in eligible multimedia productions.

To be eligible, a multimedia title must be produced in an electronic medium, be run using software that supports interactivity, and present, in significant proportions, at least three of the following four types of data: text, sound, still images, moving images. The related titles tied to a principal multimedia title are also entitled to the tax credit for the production of multimedia titles.

³¹ The corporation must obtain a corporation and employee certificate issued by Investissement Québec stating, among other things, that:

- Activities in the information technology sector constitute at least 75% of the corporation's activities (activities under North American Industry Classification System [NAICS] codes 334110, 334220, 334410, 417310, 443120, 511210, 518210, 541510, 561320 and 561330);
- At least 50% of its gross income comes from activities that are included under NAICS codes 511210, 541510, 561320 and 561330;
- The gross income from activities included under NAICS codes 561310, 561320 and 561330 is below the gross income from activities included under NAICS codes 511210 and 541510;
- At least 75% of its gross income comes from activities that are included under NAICS codes 541510, 511210 and, under certain conditions, 561320 and 561330, that are attributable to services ultimately provided to persons with whom it is at arm's length or services relating to applications developed by the corporation that are used exclusively outside Québec, or a combination of these services;
- At any time, these activities require a minimum of six eligible full-time employees, except in situations of activities transfer or business start-ups.

³² For more information on these credits, visit the website of the Société de développement des entreprises culturelles (SODEC) at www.sodec.gouv.qc.ca.

³³ The federal government also has a tax credit for Canadian film or video production services.

³⁴ The federal government also has a tax credit for film or video production services.

³⁵ For taxation years ending after March 20, 2012, the "all or substantially all" criterion is replaced by 75% to produce eligible multimedia titles.

The corporation's labour expenditures determine the credit amount it can claim. The rate varies by category of production and whether a French version is available. A corporation that wishes to benefit from this credit must obtain an eligibility certificate from Investissement Québec.

Categories	Basic Credit	Enhanced Credit for French Version
Multimedia titles destined for commercial markets and that are not vocational training titles	24%	30%
Other multimedia titles including vocational training titles	21%	N/A

3.6 The Financial Services Sector

In this era of market globalization, corporations working in the financial services sector are faced with increasingly complex regulations. To support this industry, the Québec government has implemented tax measures to support international financial centres and encourage the creation of new financial services corporations.

3.6.1 International Financial Centres³⁶

The objective of International Financial Centres (IFCs) is to promote the implementation, development and retention in the City of Montréal of businesses specializing in international transactions. Accordingly, a corporation recognized as an IFC can benefit from a refundable tax credit of 24% of the salaries of eligible employees. The maximum credit is \$16,000 per employee. Foreign specialists employed by an IFC are also eligible for the same tax holiday as foreign researchers and specialists.³⁷

3.6.2 Tax Measures Aiming to Encourage the Creation of New Financial Services Corporations

The Québec government has implemented three fiscal measures to encourage the creation of new financial services corporations:

- Refundable tax credit for new financial services corporations;
- Refundable tax credit for the hiring of employees by a new financial services corporation; and
- Tax holiday for foreign specialists employed by a new financial services corporation.

To be eligible for these measures, the corporation's activities must include one or more of the following activities:

- Analysis, research, management, advisory or securities transactions or distribution services performed by certain types of securities dealers;
- Securities advisory or securities portfolio management services provided by certain types of securities advisers.

The corporation must obtain a qualification certificate from the Ministère des Finances et de l'Économie,³⁸ which will be valid for a period of five years.

Tax Credit for New Financial Services Corporations

A corporation can benefit from a refundable tax credit equivalent to 32% of certain eligible expenditures during the period of validity of the qualification certificate. Eligible expenditures include, among others, fees for the constitution of the initial file for participation in a stock exchange, fees and costs as a participant in a stock exchange and subscription fees for financial analysis or research tools or services. The expenditures eligible for the credit are limited to \$375,000 annually, for a maximum annual credit of \$120,000.³⁹

Tax Credit for the Hiring of Employees by a New Financial Services Corporation

A corporation may claim a refundable tax credit equivalent to 24% of salaries paid during the period of validity of the qualification certificate, up to an annual maximum credit of \$24,000 per employee. An employee's salary is eligible for the credit if 75% of the employee's duties are directly attributable to the transactional process specific to the carrying out of the activities stipulated in the corporation's qualification certificate.

Tax Holiday for Foreign Specialists Employed by a New Financial Services Corporation

Foreign specialists employed by a new financial services corporation can also benefit from the tax holiday granted to foreign researchers and specialists.⁴⁰

³⁶ See the website of the International Financial Centre of Montréal at www.cfimontreal.com/en/index.asp.

³⁷ See section 3.1.3. Note that the exemption for the fifth year is equal to 37.5% of the salary received by specialists employed by an IFC.

³⁸ The corporation must submit its application for a qualification certificate before the end of its second fiscal year and before December 31, 2017, at the latest.

³⁹ The expenditure limit must be shared between associated corporations.

⁴⁰ See section 3.1.3.

3.7 Other Tax Measures

This section describes the main features of other tax measures offered by the government to stimulate Québec's economy.

3.7.1 Large Investment Projects

A tax holiday for large investment projects carried out after November 20, 2012, is offered to corporations in the manufacturing, wholesale, warehousing and data processing and storage sectors.

For a project to qualify as a large investment project, corporations must first obtain an initial certificate as well as annual certificates from the Ministère des Finances et de l'Économie. The application for initial certification should be submitted before November 21, 2015, and before the large investment project begins. The project must also involve activities described in one or more of the NAICS codes:

- 31–33 – Manufacturing;⁴¹
- 41 – Wholesale Trade;
- 4931 – Warehousing and Storage;
- 518 – Data Processing, Hosting, and Related Services.

Investment Threshold

The project must reach and maintain the \$200-million minimum threshold for total investment expenditures.⁴² The investment expenditures made for purposes of the minimum investment threshold include all capital expenditures incurred since the beginning of the project to obtain goods and services. The latter must be used in the set-up of the enterprise in which the eligible activities will be carried out in Québec; or for the purposes of expanding or modernizing such an enterprise.⁴³

Tax Holiday Scope

The 10-year tax holiday will include an income tax holiday and an HSF employer contribution holiday. The income tax holiday will be in the form of a deduction in the computation of the corporation's taxable income, whereas the HSF employer contribution holiday will apply to the salaries paid by the employer for employee time dedicated to the corporation's eligible activities.

Tax Assistance Ceiling

The total tax assistance⁴⁴ that a corporation may receive cannot exceed the tax assistance ceiling of its investment project. This ceiling corresponds to 15% the excess of the total eligible investment project expenditures over the total tax assistance that the corporation received in previous years.

Eligible investment expenditures correspond to capital expenditures attributable to the carrying out of the investment project that the corporation will have performed as of the start of its holiday period.

3.7.2 Technological Adaptation Services

A tax credit is granted to businesses for the collection and processing of strategic information as well as for collaboration efforts, research and innovation with different partners.

The refundable tax credit is equal to 40% of:⁴⁵

- 80% of the fees for liaison and transfer services provided by a liaison and transfer centre or by a college centre for the transfer of technology; and
- the cost of training and information activities related to liaison and transfer services.

A credit can be claimed for the following eligible activities:

- locating and brokering research results;
- assessing the needs of businesses;
- bringing together stakeholders;

⁴¹ Processing activities for a mineral substance are excluded.

⁴² The \$200-million threshold must be reached by the end of the 48-month period beginning on the date of issuance of the initial certificate. The investment threshold is \$300 million for projects commenced after November 12, 2012, but before October 8, 2013.

⁴³ Expenditures relating to the purchase or use of land and those relating to the acquisition of a business already being carried on in Québec are not eligible.

⁴⁴ Deduction in the computation of the taxable income and HSF contribution holiday.

⁴⁵ Excluding all expenditures eligible for a Québec R&D tax credit.

- carrying out technical feasibility studies and studies assessing the commercial potential of innovation projects; and
- supporting businesses through the various stages of innovation project execution.

Liaison and transfer centres are organizations that bring together numerous university, industry and government members whose mission is to enhance the value of enterprises through the transfer of expertise, knowledge, know-how and technologies. The activities of college centres for the transfer of technology focus on applied research, technical assistance, training, information monitoring and communication.⁴⁶

3.7.3 On-the-Job Training

A number of businesses believe in the benefits of collaboration between the academic and business communities. These businesses complement the theoretical aspects of a student's education with practical training. To encourage these initiatives, the tax system provides a tax credit with respect to student training within such businesses.

A corporation can claim a refundable tax credit equal to 24%⁴⁷ of a student's salary.⁴⁸

Employers who hire an eligible apprentice⁴⁹ can benefit from the federal apprenticeship job creation tax credit. This tax credit corresponds to 10% of the salary paid to an apprentice up to an annual maximum of \$2,000 per apprentice.

3.7.4 Design⁵⁰

Tax incentives for design cover two areas and provide for a refundable tax credit ranging from 12% to 24%. The first area involves design activities related to goods made on an industrial basis under an external consulting contract. The second area involves payroll costs incurred by a corporation for fashion designers.

3.7.5 Temporary Tax Credit to Foster the Modernization of the Accommodation Offering

A corporation⁵¹ that owns an eligible tourist accommodation establishment,⁵² outside of the greater Montréal and Québec City regions, may benefit from a 20% refundable tax credit for the portion of its expenditures⁵³ incurred in the year to carry out work⁵⁴ that exceeds \$50,000,⁵⁵ up to a maximum credit limit of \$140,000.

Eligible work⁵⁶ for the purposes of the tax credit is as follows:

- Renovation, reorganization, improvement, conversion or expansion work on an accommodation establishment; and
- The work needed to restore the establishment's land as it was before the work described above was carried out.

3.7.6 Child Care Spaces

Businesses that create child care spaces for the children of their employees are entitled to a tax credit equal to 25% of eligible expenditures up to a maximum of \$10,000 per child care space created.

3.7.7 Maritime Industry

As part of its maritime strategy, Québec has implemented several measures to stimulate the economic development of many of its shoreline regions. The first measure is an additional capital cost allowance granted for building or renovating a vessel in a Québec shipyard. The second is a refundable tax credit granted for building or renewing a vessel. Last, Québec shipowners may take advantage of a tax-free reserve to allow Québec shipyards to modernize or renew their fleet of vessels or build a new vessel.

⁴⁶ Appendix 5 lists these organizations.

⁴⁷ 32% when the student is a disabled person or an immigrant.

⁴⁸ Eligible expenditures include the salaries of students and their supervisors. Expenditures may not, however, exceed \$600 or \$750 per student per week (\$750 or \$1,050 when the student is a disabled person or an immigrant) depending on the type of training.

⁴⁹ Eligible apprentices must practise one of the Red Seal trades.

⁵⁰ For more information on this credit, visit the website of the Ministère des Finances et de l'Économie at www.finances.gouv.qc.ca/en/index.asp.

⁵¹ The corporation's gross revenue for the taxation year or the taxation year preceding such taxation year must be at least \$100,000 and all of its assets for the preceding taxation year must be equal to or greater than \$400,000.

⁵² An eligible tourist accommodation establishment includes hotel establishments, tourist homes, resorts, bed and breakfast establishments and youth hostels. Hospitality villages, educational establishments, camping establishments, outfitting establishments and rugged furnished lodgings are not eligible.

⁵³ Eligible expenditures correspond to the total cost of the labour supplied by the contractor to carry out the work and the cost of acquisition of goods that enter into the execution of the work.

⁵⁴ Execution of the work must be awarded to a contractor under the terms of an agreement entered into after March 20, 2012, and before January 1, 2016.

⁵⁵ Annual expenditures threshold for taxation years ending before January 1, 2014. For taxation years ending after December 31, 2013, the annual expenditures threshold is replaced with a single \$50,000 threshold, which considers all expenditures incurred in the taxation year and prior taxation years.

⁵⁶ Repair or maintenance work on an accommodation establishment is not eligible.

4. TAXATION AS A TOOL TO FIGHT CLIMATE CHANGE

The fight against climate change is now part of the growing concerns of business leaders. Whether they want to enhance their image or increase profitability by improving their energy efficiency, businesses have no choice but to invest in the fight against climate change. Therefore, businesses must take advantage of any and all opportunities offered by the fight against climate change to position themselves and increase their competitiveness.

Our governments have traditionally used regulations to protect the environment and decrease pollution. Over the last few years, public authorities have recognized that the fight against climate change must involve business commitment. It is with this in mind that government authorities have started promoting renewable energy investments through tax measures.

Hydroelectricity provides businesses in Québec with a significant competitive advantage. Generally, the carbon footprint of products manufactured in Québec is lower than that of products manufactured in the other provinces or the United States. Québec businesses going green can therefore compete very favourably when they use hydroelectricity.

This section provides a summary of the main measures that apply to businesses. Some of the measures are available on a voluntary basis, encouraging taxpayers to make “green” choices to benefit from tax relief, while others are mandatory. However, all of these measures have one common goal: the fight against global warming.

4.1 Trucks and Tractors Fuelled by Liquefied Natural Gas

In Québec, an additional deduction of 85% of the amount deducted using the 60% capital cost allowance rate is granted with respect to a truck or tractor designed for hauling freight where such a truck or tractor runs on liquefied natural gas (LNG).

This measure applies to new vehicles⁵⁷ acquired after March 20, 2010, but before January 1, 2016, that are fuelled by LNG. Accordingly, a truck or tractor will be considered as being fuelled by LNG if it is fuelled by LNG at the time it is acquired by the taxpayer, or if additions or modifications enabling it to be fuelled by LNG are made within 12 months following its acquisition by the taxpayer.

4.2 Clean Energy Generation

Equipment designed to produce clean energy acquired after February 22, 2005, and before January 1, 2020, that meets the higher efficiency standards may benefit from a declining capital cost allowance rate of 50% (Class 43.2). This accelerated deduction represents a financial advantage for businesses that would like to go green and invest in new, more productive and less energy-consuming equipment.

4.3 Greenhouse Gases (GHG)

Since 2008, Québec has been a member of the Western Climate Initiative (WCI), whose main objective is to implement a system to reduce greenhouse gas (GHG) emissions. Under the WCI, certain industrial⁵⁸ sectors are regulated and must have reduced their GHG emissions since January 2013.

The Québec government has recently adopted its own GHG regulations:

- *Regulation respecting mandatory reporting of certain emissions of contaminants into the atmosphere; and*
- *Regulation respecting a cap-and-trade system for greenhouse gas emission allowances.*

Accordingly, enterprises emitting over 10,000 tons of carbon dioxide equivalents (CO₂e) annually are required to report their GHG emissions, as long as their emissions have not been lower than 10,000 tons of CO₂e over four consecutive years. The reports must be filed by June 1 at the latest for GHG emissions for the previous calendar year. Enterprises that distribute fuel and combustibles that are subject to Section 85.33 of the *Act respecting the Régie de l'énergie* and whose GHG emissions attributable to the combustion or use of this fuel are 25,000 tons of CO₂e or more must also report these emissions to the Minister of Sustainable Development, the Environment, Wildlife and Parks. The GHG emissions calculation and application of the reporting threshold are determined separately for each installation owned by an enterprise.

Also, enterprises that emit over 25,000 tons of CO₂e are required to have their emissions report verified by an independent and ISO 14065–certified organization. These verification reports must be sent to the Minister by June 1, at the latest, following the end of the year in which the emissions were reported.

The cap-and-trade system, officially in effect since January 2013, impacts enterprises having reported annual emissions for an installation equal to or greater than 25,000 metric tons of CO₂e.⁵⁹

⁵⁷ Weight rating in excess of 11,788 kilograms.

⁵⁸ In particular, cement manufacturing, pulp and paper, metallurgy, electricity generation and petroleum.

⁵⁹ The calculation of the threshold excludes certain emissions which are listed in Section 6.6 of the *Regulation respecting mandatory reporting of certain emissions of contaminants into the atmosphere*.

Briefly, the terms and conditions of the system are as follows: each year, the government will grant a certain number of emission rights (also called quota) to the target industries (emitters). These emission rights are the target to be achieved by GHG emitters.

At the end of each three-year period,⁶⁰ emitters must provide the government with a compliance report. Emitters must therefore calculate their actual GHG emissions to determine whether they have fulfilled their obligations based on emission rights allocated by the government.

In order to be able to demonstrate to the government that they have sufficient emission rights, emitters may:

- Participate in credit auctions organized by the government. Four auctions are planned annually. The funds collected will be paid into the Green Fund, in accordance with the *Environment Quality Act*. To date there have been two auctions, one in December 2013 and one in March 2014;
- Purchase unused emission rights from another regulated emitter;
- Purchase offset emission credits from unregulated enterprises that have voluntarily reduced their emissions through projects accepted in advance by the government;⁶¹ or
- Use their credits for early reductions in relation to certain projects implemented since 2008.⁶²

5. COMMODITY TAXES AND PERSONAL TAXATION

In Québec, most commercial transactions are subject to the 5% federal Goods and Services Tax (GST) and the 9.975% Québec Sales Tax (QST). The QST system was largely harmonized with the GST/HST system, and most transactions that are subject to the GST/HST are also subject to the QST.⁶³

GST registrants are required to collect the harmonized sales tax (HST) instead of GST when making supplies in certain provinces in Eastern Canada (Prince Edward Island, Newfoundland and Labrador, Nova Scotia, New Brunswick and Ontario, hereafter, the “Participating Provinces”). HST is a value-added tax, like GST and QST. The rules governing HST are identical to those for GST and the HST rate includes GST at 5%. If HST is collectible, QST would not be.

Participating Provinces ¹	HST Rate
New Brunswick, Newfoundland and Labrador and Ontario	13%
Nova Scotia	15% ²
Prince Edward Island	14% ³

¹ In British Columbia, the HST was eliminated on April 1, 2013, and was replaced with a 5% GST rate and a 7% provincial sales tax.

² Nova Scotia will reduce its HST rate to 14% as of July 1, 2014, and 13% as of July 1, 2015.

³ Prince Edward Island introduced a 14% HST rate on April 1, 2013.

5.1 Tax Base

GST/HST and QST apply on the supply or importing of tangible and intangible movable and immovable property, as well as services. There are some exceptions, however. For example, goods and services to be exported, basic food and prescription drugs are generally zero-rated, that is, they are taxable, but at a zero rate. Other supplies are tax-exempt, such as financial services⁶⁴ and some goods and services supplied by public service or charitable organizations, used residential buildings and medical services.

5.2 Value-Added Tax – Mechanism

As the GST/HST and QST are both value-added taxes, the cost is borne by the final consumer. Thus, if a corporation does business in Québec and is a GST/HST and QST registrant, it normally should not have to absorb any cost with respect to these taxes on its transactions. Input tax credits (ITCs) under the GST/HST regime and input tax refunds (ITRs) under the QST regime make it possible for GST/HST and QST registrants to obtain a refund of taxes paid or payable for supplies acquired in connection with their commercial activities. Suppliers of taxable goods and services (including zero-rated supplies) may claim an ITC/ITR, whereas suppliers of tax-exempt goods and services may not claim an ITC/ITR. ITCs and

⁶⁰ Except for an initial period of two years. Compliance periods: 2013 to 2014; 2015 to 2017; 2018 to 2020, etc.

⁶¹ Despite the fact that an emitter can buy an unlimited number of offset credits, the emitter is limited to using credits for a maximum of 8% of its emissions to help it comply during the period in question. Furthermore, only three project types may qualify as generating offset credits: destroying substances that weaken the ozone layer contained in insulating foam from refrigerating and freezing devices, destroying methane from landfill sites and destroying methane captured by covering a manure pit.

⁶² Projects accepted and verified in advance by an independent organization.

⁶³ Since January 1, 2013, QST is calculated on the value of the transaction excluding GST.

⁶⁴ Financial services have been exempted under the QST system since January 1, 2013.

ITRs are applied against GST/HST and QST collected by a registrant. Registrants must remit the difference to the tax authorities and will receive a refund for negative amounts. GST/HST and QST (for Québec residents)⁶⁵ remittances and claims are made on the same form either monthly, quarterly or annually, depending on the circumstances.

In some cases, tax-exempt supplies may entitle the supplier to specific partial refunds.

5.2.1 Registration

In general, a corporation must register for GST/HST and QST purposes if it operates a business in Canada (in Québec for QST purposes) and carries out taxable transactions in connection with a commercial activity. There is one exception. A person does not have to register if the person is a small supplier, i.e. a person who made less than \$30,000 of taxable transactions and zero-rated transactions⁶⁶ during the four previous calendar quarters.⁶⁷

5.2.2 Imports – GST/HST and QST

Imported commercial goods are subject to GST (5%) at customs. However, a corporation can generally recover (as an ITC) the GST paid on imports if it is a GST registrant. There is no QST when commercial goods clear customs; however, the importer is required to self-assess if the goods are used in tax-exempt activities. Imported personal use goods are subject to the GST/HST and QST.

5.2.3 Exports – GST/HST and QST

Exported goods are not subject to GST/HST and QST. The general principle for exports of services is that GST/HST will not be collected from a customer who is not a resident of Canada and QST will not be collected from a customer who is not a resident of Québec. Some exceptions apply, for example, when the service relates to tangible real property or immovable property in Québec/Canada.

5.2.4 Specific Provisions Regarding Large Corporations

A large business⁶⁸ for QST purposes cannot claim a refund for QST paid with respect to certain restricted expenses,⁶⁹ in particular, certain expenses for electricity, road vehicles, combustibles and fuel, telephone services and meals and entertainment. There are similar measures⁷⁰ for expenses subject to HST in Ontario.

5.3 Other Taxes

The provinces of Saskatchewan, Manitoba and British Columbia levy a provincial retail sales tax. This tax is over and above GST on the sale or leasing of tangible movable property or the provision of taxable services to the final consumer in these provinces. This tax is similar to the U.S. Sales & Use Tax. Individuals doing business in these provinces or carrying out solicitation activities to make taxable supplies may be required to register and collect the provincial sales tax as well as GST.

Certain products, including tobacco products, fuel and alcoholic beverages, are subject to Canada's excise tax and certain specific provincial and Québec taxes.

5.4 Personal Taxation

Under Canada's tax system, the income tax payable by individuals depends on whether they are residents or non-residents of Canada. Individuals who are resident in Canada during a taxation year are subject to Canadian income tax on their world income. Non-resident individuals only have to pay Canadian income tax on their income earned in Canada. Individuals are subject to provincial income tax on their world income if they are resident in that province on December 31.

In general, individuals are considered to be residents of the Canadian province where they have substantial residential ties, i.e. the place where their dwelling or home is located and where the individual's spouse and children live. The facts of each situation have to be analyzed and a number of other criteria also have to be taken into consideration, including the tax treaties signed by Canada.⁷¹

⁶⁵ For non-residents of Québec, GST/HST and QST remittances are generally on separate forms.

⁶⁶ Transactions of all corporations in the same group have to be considered in order to determine the amount of taxable transactions. Other rules apply.

⁶⁷ Although a corporation may not be required to register, it can, in certain cases, do so voluntarily.

⁶⁸ Generally, a corporation is considered to be a large business for QST purposes if the total of taxable sales from a permanent establishment in Canada and those of its associated companies is more than \$10 million for a given taxation year.

⁶⁹ These restrictions are being phased out following the harmonization of the QST on January 1, 2013, over a maximum period of eight years.

⁷⁰ The mechanism is, however, different in the HST system, where a large corporation is generally entitled to ITCs for all HST paid in connection with its commercial activities, but must repay a portion of the tax collected to the state, for an amount equivalent to the provincial HST component.

⁷¹ For more details on tax treaty developments, consult the Department of Finance Canada's website: www.fin.gc.ca/treaties-conventions/treatystatus_-eng.asp.

6. ADDITIONAL INFORMATION

It is difficult to compare the tax systems of any two countries because of the many differences that may exist between the two systems. Therefore, it cannot be said that one system is superior to the other simply based on corporate tax rates. Managers of corporations have to evaluate a country's tax system based on their own situation, taking into account the rules for computing taxable income, income tax rates, capital taxes, payroll taxes and commodity taxes, as well as the various tax measures.

Overall, Québec's tax system is very competitive because of its low corporate tax rates, the rules for computing taxable income and the various credits and tax holidays available to corporations.

This brochure provides an overview of the taxation of corporations in Québec. It does not contain all of the often complex details of these measures. The authors and editors are not responsible for the consequences of any decision made based on the information herein, or for any error or omission. A tax specialist should be consulted for additional explanations.

Information about all of the measures discussed in this brochure can be obtained from Raymond Chabot Grant Thornton.



www.rcgt.com

Jean Gauthier, CPA, CA, M.Fisc.
gauthier.jean@rcgt.com
514 393-4789

Renée Gladu, CPA, CA
gladu.renee@rcgt.com
819 822-4017

Norman Angell, FCPA, FCGA
angell.norman@rcgt.com
418 647-3256

Daniel Lachapelle, CPA, CA
lachapelle.daniel@rcgt.com
514 393-4786

Guy Lemieux, CPA, CA, M.Fisc.
lemieux.guy@rcgt.com
418 562-0203

Christian Menier, CPA, CA, M.Fisc.
menier.christian@rcgt.com
418 549-4142

Gisèle Prévost, CPA, CGA, TEP, LL.M. Tax
prevost.gisele@rcgt.com
613 236-2211

Johanne Quessy, CPA, CA, M.Fisc.
quessy.johanne@rcgt.com
819 825-6226

You can also contact:



infoIQ@invest-quebec.com
1 866 870-0437

www.investquebec.com

Canada Revenue Agency
www.cra-arc.gc.ca

Agence de Revenu du Québec
www.revenu.gouv.qc.ca

APPENDIX 1

Net Cost of R&D Expenditures – SMB¹

Example

A corporation realizing profits incurs \$100,000 of R&D expenditures, i.e. \$90,000 for the salary of a researcher, \$5,000 for subcontracting in Québec and \$5,000 for materials.

	December 31, 2014
Expenditures	\$
A Salaries	90,000
B Arm's-length subcontractors	5,000
C Materials	5,000
D Total R&D expenditures	100,000
Québec tax credit²	
E $[(A + B/2) \times 30\%]$	27,750
Federal tax credit	
Total eligible expenditures $(A + 0.8B + C)$	99,000
Overhead $A \times 55\%^3$	49,500
Less Québec credit	(27,750)
F Expenditures eligible for credit	120,750
G $F \times 35\%$	42,263
H Total tax credits (E + G)	70,013
Net cost to corporation before income taxes (D - H)	29,987
Tax savings	
Federal $[(D - H) \times 11.0\%]$	3,299
Québec $[(D - H) \times 8.0\%]$	2,399
I Total tax savings	5,698
J Net cost to corporation⁴ (D - H - I)	24,289

¹ For the purposes of the Québec tax credit, an SMB is a Canadian-controlled private corporation whose assets in the financial statements of all the corporations in the group are less than \$50 million.

For purposes of the federal tax credit, an SMB is a Canadian-controlled private corporation whose taxable income and taxable capital for all the corporations in the group do not exceed \$500,000 and \$10 million, respectively, for the preceding taxation year.

² For expenses incurred after June 4, 2014.

³ Proxy method used to calculate overhead. Under this method, actual overhead is replaced by 55% of R&D salaries.

⁴ The result would be slightly different for a manufacturing small and medium-sized business, whose tax rate in Québec would be less than 8%.

APPENDIX 2

Net Cost of R&D Expenditures – Large Corporation or Foreign-Controlled Corporation Realizing Profits

Example

A corporation realizing profits incurs \$100,000 of R&D expenditures, i.e. \$90,000 for the salary of a researcher, \$5,000 for subcontracting in Québec and \$5,000 for materials.

	December 31, 2014
Expenditures	\$
A Salaries	90,000
B Arm's-length subcontractors	5,000
C Materials	5,000
D Total R&D expenditures	100,000
Québec tax credit¹	
E $[(A + B/2) \times 14\%]$	12,950
Federal tax credit	
Total eligible expenditures $(A + 0.8B + C)$	99,000
Overhead $A \times 55\%$ ²	49,500
Less Québec credit	(12,950)
F Expenditures eligible for credit	135,550
G $F \times 15\%$	20,333
H Total tax credits (E + G)	33,283
Net cost to corporation before income taxes (D - H)	66,717
Tax savings	
Federal $[(D - H) \times 15\%]$	10,008
Québec $[(D - H) \times 11.9\%]$	7,939
I Total tax savings	17,947
J Net cost to corporation (D - H - I)	48,770

¹ For expenses incurred after June 4, 2014.

² Proxy method used to calculate overhead. Under this method, actual overhead is replaced by 55% of R&D salaries.

APPENDIX 3

Net Cost of R&D Expenditures – Large Corporation or Foreign-Controlled Corporation Realizing Losses

Example

A corporation realizing losses incurs \$100,000 of R&D expenditures, i.e. \$90,000 for the salary of a researcher, \$5,000 for subcontracting in Québec and \$5,000 for materials.

	December 31, 2014
Expenditures	\$
A Salaries	90,000
B Arm's-length subcontractors	5,000
C Material	5,000
D Total R&D expenditures	100,000
Québec tax credit¹	
E $[(A + B/2) \times 14\%]$	12,950
Federal tax credit	
Total eligible expenditures $(A + 0.8B + C)$	99,000
Overhead $A \times 55\%$ ²	49,500
Less Québec credit	(12,950)
F Expenditures eligible for credit	135,550
G $F \times 15\%$ ³	0
H Total tax savings (E + G)	12,950
Net cost to corporation (D - H)	87,050

¹ For expenses incurred after June 4, 2014.

² Proxy method used to calculate overhead. Under this method, actual overhead is replaced 55% of R&D salaries.

³ Since the corporation is realizing losses and the credit is not refundable, the corporation can benefit from its federal credit only if it has realized profit within the three previous years or if it realizes profit in the next 20 years.

APPENDIX 4

Entities Eligible for University R&D Credit

College technology transfer centres

Most of the college technology transfer centres (CTTC) in Appendix 5 are eligible for the university R&D credit. Contact the CTTC of your choice to ensure that it is eligible for the university R&D credit.

Government research centres

- One of the following research centres of the Department of Agriculture and Agri-Food of the Government of Canada:
 - Dairy and Swine Research and Development Centre (DSRDC);
 - Food Research and Development Centre (FRDC);
 - Horticulture Research and Development Centre (HRDC);
 - Soils and Crops Research and Development Centre (SCRDC);
- Aerospace Manufacturing Technology Centre (AMTC);
- CANMET Energy Technology Centre (CETC);
- Centre d'aide technologique aux entreprises – Côte-Nord (CATE Côte-Nord);
- Centre de recherche industrielle du Québec (CRIQ);
- Centre de santé et de services sociaux (CSSS) de Chicoutimi;
- Centre d'expertise et de recherche en tourisme et restauration;
- Defence Research Establishment Valcartier (DREV);
- Health of Animals and Food Laboratory of the Canadian Food Inspection Agency (CFIA);
- Institut de la technologie du magnésium (ITM);
- Institut de recherche d'Hydro-Québec (IREQ);
- Institut national de santé publique du Québec (INSPQ);
- Interdisciplinary Centre for the Development of Ocean Mapping (CIDCO);
- Laboratoire des technologies de l'énergie d'Hydro-Québec (LTE);
- Maurice Lamontagne Institute of the Ministry of Fisheries and Oceans, Canada;
- National Optics Institute (INO);
- National Research Council Canada, Biotechnology Research Institute (NRCC – BRI);
- National Research Council Canada – Boucherville location.

Other prescribed entities

- Centre d'aide régional sur les aliments du Saguenay–Lac-Saint-Jean–Côte-Nord (CARA);
- Centre de développement bioalimentaire du Québec (CDBQ);
- Centre de foresterie des Laurentides (CFL);
- Centre de géomatique du Québec (CGQ);
- Centre de recherche Les Buissons (CRLB);
- Centre de recherche sur les biotechnologies marines (CRBM);
- Centre d'études sur les ressources minérales (CERM);
- Centre de valorisation des plantes;
- Centre d'expérimentation et de transfert technologique en acériculture (CETTA);
- Centre d'expertise en production ovine du Québec (CEPOQ);
- Centre interuniversitaire de recherche en analyse des organisations (CIRANO);
- Centre national du transport en commun (CNTC);
- IDÉA Innovation PME;
- Institut universitaire de gériatrie de Sherbrooke;
- Réseau d'informations scientifiques du Québec (RISQ);
- Service de recherche et d'expertise en transformation des produits forestiers (SEREX).

Eligible universities

All universities in Québec

The following medical research university hospital centres:

- The following McGill University network centres:
 - Douglas Hospital's Research Centre;
 - Douglas Hospital – Mental Health University Institute;
 - McGill University Health Centre;
 - Montréal General Hospital Research Institute;
 - Sir Mortimer B. Davis Jewish General Hospital.
- The following Université de Montréal network centres:
 - CHUM (including Hôpital Notre-Dame, Hôpital Saint-Luc and Hôtel-Dieu de Montréal);
 - CHU Sainte-Justine;
 - Hôpital Louis-H. Lafontaine;
 - Hôpital Maisonneuve-Rosemont;
 - Hôpital du Sacré-Cœur de Montréal;
 - Institut du cancer de Montréal;
 - Institut Philippe-Pinel de Montréal;
 - Institut de réadaptation de Montréal;
 - Institut de recherches cliniques de Montréal;
 - Institut universitaire de gériatrie de Montréal (IUGM) (formerly Centre hospitalier Côte-des-Neiges);
 - Montréal Heart Institute.
- The following Université Laval network centres:
 - Centre hospitalier affilié universitaire de Québec;
 - Centre hospitalier universitaire de Québec (CHUQ);
 - Institut universitaire de cardiologie et de pneumologie du Québec.
- Canadian Centre for Automatization and Robotics in Mining (CCARM);
- Canadian Dental Research Institute (CRDI);
- Centre de développement rapide de produits et de procédés;
- Centre de recherche informatique de Montréal (CRIM);
- Centre de recherche de l'Université Laval Robert-Giffard (CRULRG);
- Centre de recherche Louis-Charles-Simard;
- Centre for Characterization and Microscopy of Materials (CM);
- Centre François-Charron;
- Centre hospitalier universitaire de Sherbrooke (CHUS);
- Institut de recherche en biologie végétale (IRBV);
- Institut de recherche en pharmacie industrielle IRPI;
- Institut des biomatériaux du Québec (IBQ);
- Mineral Exploration Research Institute;
- Société de microélectronique industrielle de Sherbrooke (SMIS);
- A non-profit corporation under the authority of one of the centres mentioned above;
- A wholly owned subsidiary of one of the centres mentioned above.

Research consortia

- Centre de recherche, de développement et de transfert technologique acéricole (ACER);
- Centre de recherche sur les grains (CEROM);
- Centre des technologies du gaz naturel (CTGN);
- Consortium de recherche en exploration minérale (CONSOREM);
- Consortium de recherche minérale (COREM);
- Consortium de recherche sur la forêt boréale commerciale (CRFBC);
- FP Innovations;
- Institut de recherche et de développement en agroenvironnement (IRDA).

APPENDIX 5

Entities Eligible for Technological Adaptation Services Credit

The “eligible liaison and transfer centres” are:

- Centre de recherche informatique de Montréal (CRIM);
- Centre francophone d’informatisation des organisations (CEFRIO);
- Centre interuniversitaire de recherche en analyse des organisations (CIRANO);
- Centre québécois de recherche et de développement de l’aluminium (CQRDA);
- Centre québécois de valorisation des biotechnologies (CQVB).

The “eligible college technology transfer centres” are:

(An eligible collegiate technology centre includes an affiliated prescribed research centre)

- Agrinova – Recherche et innovation en agriculture;
- Biopierre - Bioproducts Development Center;
- Centre collégial de transfert de technologie en télécommunications (C2T3);
- Centre de développement des composites du Québec (CDCQ);
- Centre de géomatique du Québec (CGQ);
- Centre de métallurgie du Québec (CMQ);
- Centre d’enseignement et de recherche en foresterie (CERFO);
- Centre de production automatisée (CPA);
- Centre de productique intégrée du Québec (CPIQ);
- Centre de recherche pour l’inclusion scolaire et professionnelle des étudiants en situation de handicap (CRISPESH);
- Centre de robotique et de vision industrielles (CRVI);
- Centre de solutions technologiques en orthèses et prothèses (CSTOP);
- Centre de technologie minérale et de plasturgie inc. (CTMP);
- Centre de transfert technologique en écologie industrielle (CTTEI);
- Centre d’étude en responsabilité sociale et écocitoyenneté (CERSE);
- Centre d’études des procédés chimiques du Québec (CEPROCQ);
- Centre des technologies de l’eau (CTE);
- Centre d’expérimentation et de développement en forêt boréale (CEDFOB);
- Centre d’initiation à la recherche et d’aide au développement durable (CIRADD);
- Centre d’innovation en microélectronique du Québec (CIMEQ);
- Centre d’innovation sociale en agriculture (CISA);
- Centre en imagerie numérique et médias interactifs (CIMMI);
- Centre national en électrochimie et en technologies environnementales (CNETE);
- Centre technologique des résidus industriels (CTRI);
- Centre technologique en aérospatiale (CTA);
- Cintech agroalimentaire – Centre d’innovation technologique en agroalimentaire;
- ECOBES – Groupe d’Études des Conditions de vie et des Besoins de la population;
- EQMBO – Entreprises – Centre d’aide technique et technologique en meuble et bois ouvré;
- Groupe CTT – Centre d’excellence des technologies textiles, géosynthétiques et matériaux souples;
- Innofibre – Centre d’innovation des produits celluloseux;
- Innovation maritime – Centre de recherche appliquée en technologies maritimes;
- Institut de recherche sur l’intégration professionnelle des immigrants (IRIPI);
- Institut de technologie des emballages et du génie alimentaire (ITEGA);
- Institut des communications graphiques (ICGQ);
- Institut du transport avancé du Québec (ITAQ);
- Institut international de logistique de Montréal (IILM);
- Institut technologique de maintenance industrielle (ITMI);
- MECANIUM – Centre d’innovations en mécanique industrielle;
- Merinov – Centre d’innovation de l’aquaculture et des pêches;
- OLEOTEK – Centre collégial de transfert de technologie en oléochimie industrielle;
- OPTTECH – Centre collégial de transfert technologique en optique-photonique;
- Service de recherche et d’expertise en transformation des produits forestiers (SEREX);
- Solutions Novika;
- TechnoCentre éolien;
- Trans Bio Tech – Centre de recherché et de transfert en biotechnologies;
- VESTECHPRO – Centre de recherche et d’innovation en habillement.

INVESTISSEMENT QUÉBEC

1200, route de l'Église
Bureau 500
Québec (Québec)
G1V 5A3

600, rue de La Gauchetière Ouest
Bureau 1500
Montréal (Québec)
H3B 4L8

1 866 870-0437
investquebec.com

