Finances et Économie Québec

INFORMATION BULLETIN

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FISCAL MEASURES DESIGNED TO STIMULATE INVESTMENT BY INDIVIDUALS AND BUSINESSES

This information bulletin provides a detailed description of the fiscal measures designed to stimulate investment by individuals and businesses announced as part of Québec's economic policy **Putting Jobs First**, released October 7, 2013.

For information regarding the matters dealt with in this information bulletin, contact the secteur du droit fiscal et des politiques locales et autochtones at 418 691-2236.

The French and English versions of this bulletin are available on the ministère des Finances et de l'Économie website at : www.finances.gouv.qc.ca

FISCAL MEASURES DESIGNED TO STIMULATE INVESTMENT BY INDIVIDUALS AND BUSINESSES

1. IMPLEMENTATION OF THE ECORENOV TAX CREDIT

Eco-friendly renovation is an effective way to help achieve government objectives regarding environmental protection while stimulating economic growth and job creation in a key sector.

The huge and as yet unexploited potential of eco-friendly renovation is an opportunity that must not be missed. Accordingly, to stimulate the economy in the short term by supporting employment in the residential renovation sector and to promote sustainable development, a refundable tax credit for eco-friendly residential renovation work will be introduced on a temporary basis.

This tax credit will target individuals who have a qualified contractor carry out eco-friendly renovation work on their principal place of residence or their cottage under a contract entered into after the day of publication of this information bulletin and before November 1, 2014.

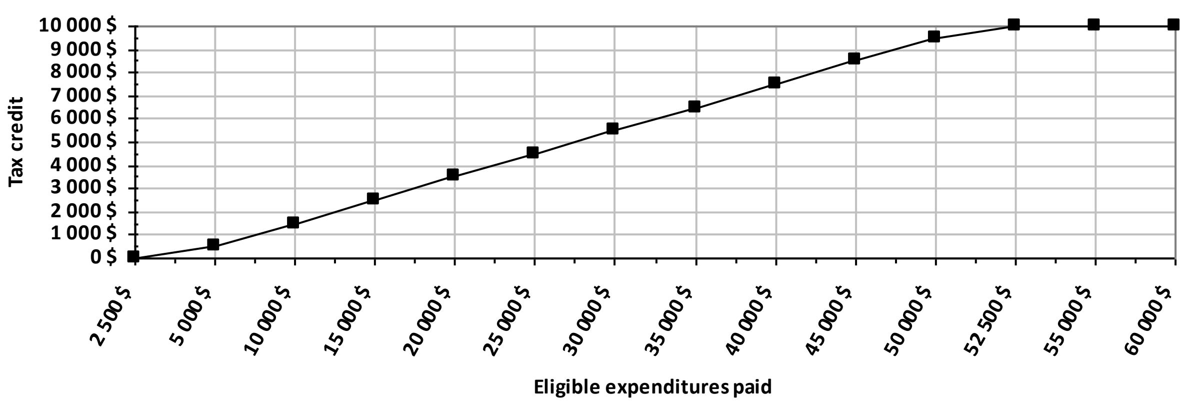
The financial assistance provided by this tax credit may, if applicable, be in addition to that available for energy-efficient residential renovation under the Rénoclimat[1] program administered by the Ministère des Ressources naturelles.

To be entitled to the tax credit, the work done must have a positive environmental or energy impact and satisfy recognized standards in this field.

The tax assistance allowed by the EcoRenov tax credit, whose maximum amount will be $10 000 per eligible dwelling, will correspond to 20% of the portion of an individual's eligible expenditures that exceeds $2 500.

The following chart illustrates the tax assistance an individual may receive for eco-friendly renovation work done on an eligible dwelling that he owns.

Amount of the EcoRenov tax credit depending on eligible expenditures paid



1 This program is described on the Ministère des Ressources naturelles website at www.efficaciteenergetique.mrn.gouv.qc.ca/en/my-home/renoclimat/.

❑ Determination of the tax credit

An individual who resides in Québec at the end of December 31 of a given taxation year[2] before taxation year 2015 may receive, for such year, a refundable tax credit for the execution of eco-friendly renovation work regarding a given eligible dwelling that he owns, for an amount equal to:

- where the given taxation year is taxation year 2013, the lower of $10 000 or 20% of the excess, over $2 500, of all the individual's eligible expenditures for the year regarding the eligible dwelling;
- where the given taxation year is taxation year 2014, the lower of the following amounts:
  - 20% of excess of all the individual's eligible expenditures for the year regarding the eligible dwelling over the lower of $2 500 or the excess of $2 500 over all the individual's eligible expenditures for taxation year 2013 regarding the eligible dwelling;
  - the excess of $10 000 over all the amounts that, regarding the eligible dwelling, were obtained on account of the EcoRenov tax credit for taxation year 2013 by the individual or by any other person with whom he owned the dwelling.

However, to receive this tax credit for a given taxation year, an individual must enclose, with his tax return for the year, an information return, using the prescribed form, indicating, among others, the description of the work done, its cost, the registration number assigned under the *Act respecting the Québec sales tax*[3] to the person who did the work or, if there is no such number, his business number or social insurance number and, if applicable, the licence number issued to the contractor who did the work.

The supporting documents (bid, invoices, etc.) must be retained for the purposes of subsequent audit by Revenu Québec. The length of time such supporting documents must be kept will be subject to the general rule according to which anyone required to keep records must keep them, as well as any document in support of the information they contain, for six years after the last year to which they relate.

Moreover, where more than one individual is entitled to the EcoRenov tax credit for work done regarding the same eligible dwelling that they jointly own, the total of the amounts indicated by each of them in their tax return must not exceed the amount that would have been allowed if, in the case where these individuals acquired their title of ownership at the same time, only one of them was entitled to the tax credit for the year and, otherwise, only the individual with the older title of ownership, or one of them if many of them hold such a title, was entitled to the tax credit for the year. If there is no agreement among the individuals, the Minister of Finance and the Economy will determine the amount that each of them may claim.

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2 For the purposes of the EcoRenov tax credit, an individual who dies or ceases to reside in Canada during a given taxation year will be deemed to reside in Québec at the end of December 31 of the year if he resided there immediately before his death or the last day when he resided in Canada, as the case may be.

3 CQLR, chapter T-0.1.

❑ Eligible dwelling

For the purposes of the EcoRenov tax credit, a given eligible dwelling of an individual means a dwelling located in Québec, other than an excluded dwelling, whose construction was completed before January 1, 2013 and of which the individual is the owner (or co-owner) at the time the eco-friendly renovation expenditures are incurred and that constitutes, at that time, either his principal place of residence, provided such dwelling is an individual house,[4] a pre-fabricated house or mobile home permanently secured in place, an apartment in a divided co-ownership immovable (condominium) or a dwelling in a residential multiple-dwelling immovable, or a cottage habitable year round that is normally occupied by the individual.

In addition, the eligible dwelling of an individual shall be deemed to include the land on which it rests and the portion of the adjacent land that can reasonably be considered as facilitating the use and enjoyment of the dwelling.

❑ Excluded dwelling

An individual’s dwelling will be considered an excluded dwelling if, before the recognized eco-friendly renovation work begins, it is the object, as the case may be, of:

— a notice of expropriation or a notice of intention to expropriate;

— a reserve for public purposes;[5]

— a prior notice of the exercise of a hypothecary right registered in the registry office or any other procedure calling the individual's right of ownership of the dwelling into question.

❑ Clarifications concerning certain dwellings

A dwelling that is a pre-fabricated house or a mobile home will not be considered permanently secured in place unless the following conditions are satisfied:

— it is fixed on permanent foundations;

— it has either water and sewer service, an artesian well and septic tank, or a combination of these items supplying drinking water and evacuating waste water;

— it is permanently connected to an electricity distribution network.

4 A house is considered individual if it is detached, semi-detached or a row house.

5 Essentially, the main objective of a reserve for public purposes is to forbid, as of the date it is imposed, development of an immovable that is scheduled to be expropriated at a later date. A reserve for public purposes generally prohibits any construction, improvement or addition to the immovable that it applies to, other than repairs made necessary to avoid any deterioration.

❑ Recognized eco-friendly renovation work

Briefly, the eco-friendly renovation work that will be recognized for the purposes of the tax credit an individual may receive will bear on insulation, air or water-proof sealing, the heating, air conditioning, water heating and ventilation systems, as well as on water and soil quality, provided such work relates to existing parts of the individual's eligible dwelling. The complete list of eco-friendly renovation work and the energy or environmental standards it must satisfy is given at the end of this sub-section.[6]

However, the eco-friendly renovation work regarding an individual's eligible dwelling may be recognized only if such work is awarded to a contractor under the terms of an agreement entered into after the day of publication of this information bulletin and before November 1, 2014 ("renovation agreement") by the individual[7] or by a person who, at the time the agreement is entered into, is either the individual's spouse, another owner of the dwelling or the spouse of such other owner. At the time such agreement is entered into, the contractor must be a person or a partnership with an establishment in Québec, other than a person that is an owner of the dwelling or that is the spouse of one of the owners of the dwelling.

In addition, where the execution of such work requires a licence issued under the *Building Act*,[8] the contractor to whom execution of the work has been awarded must, at the time of executing the work, hold an appropriate licence issued, as the case may be, by the Régie du bâtiment du Québec, the Corporation des maîtres électriciens du Québec or the Corporation des maîtres mécaniciens en tuyauterie du Québec and, if necessary, hold the licence security.

Furthermore, this work must be executed in compliance with municipal, provincial and federal legislation and regulations and the policies that apply depending on the type of intervention.

❑ Eligible expenditures

For the purposes of calculating the tax credit, an individual's eligible expenditures for a given taxation year regarding a given eligible dwelling of the individual will be equal to all of the expenditures attributable to the execution of recognized eco-friendly renovation work stipulated in a renovation agreement regarding the dwelling, provided such expenditures, on the one hand, were paid in the year and, where the given taxation year is taxation year 2014, in the year or in the first 120 days of taxation year 2015, either by the individual or his legal representative, or by a person who is the individual's spouse at the time of payment of such expenditures, or by any other individual who, at the time the expenditures are incurred, is the owner of the eligible dwelling with the individual and, on the other, are not considered an excluded expenditure.

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6 For greater clarity, recognized eco-friendly renovation work includes necessary site restoration work.

7 For the purposes of this measure, where the individual's eligible dwelling is located in a divided co-ownership immovable, the agreement may be entered into by the immovable's association of co-owners.

8 CQLR, chapter B-1.1.

More specifically, the expenditures attributable to the execution of recognized eco-friendly renovation work stipulated in a renovation agreement regarding an individual's eligible dwelling will correspond to:

— the cost of the permits necessary to execute the work, including the cost of studies done to obtain such permits;

— the cost of movable property that enters into the execution of the work, including, if applicable, the goods and services tax (GST) and the Québec sales tax (QST) related thereto, provided such movable property was acquired from the contractor or from a merchant with a registration number assigned under the *Act respecting the Québec sales tax* and it satisfies, where required, the energy or environmental standards mentioned in the list of eco-friendly renovation work;

— the cost of services supplied by the contractor to carry out the work, including, if applicable, the GST and the QST applicable thereto.

However, for the purposes of determining his eligible expenditures for a given taxation year, an individual may include an amount regarding the provision of services attributable to renovation work only if the contractor certifies, using a prescribed form, that the goods entering into the execution of such work satisfy, where required, the energy or environmental standards mentioned in the list of eco-friendly renovation work.

In addition, should the renovation agreement not bear solely on recognized eco-friendly renovation work, the contractor must give the individual a written statement showing the breakdown of costs of goods and services he supplied among the various types of work done.

Moreover, where the individual's eligible dwelling is located in a divided co-ownership immovable, the individual's eligible expenditures will include any expenditure paid by the association of co-owners, up to the individual's share in such expenditure, in the case where, both:

— the expenditure would be an eligible expenditure of the association of co-owners had the latter been an individual and the immovable, an eligible dwelling of such individual; and

— the association of co-owners advised the individual in writing of the amount of his share of the expenditure.

❑ Excluded expenditure

For a year, any portion of the individual's expenditures attributable to the execution of recognized eco-friendly renovation work stipulated in a renovation agreement regarding the individual's eligible dwelling will be considered an excluded expenditure for the purposes of the EcoRenov tax credit if:

— it is deductible in calculating an individual's business income or income from property for the year or any other year;

— it is included in the capital cost of a depreciable property;

— it was included for the purposes of calculating expenses or expenditures giving rise to another tax credit[9] claimed by the individual or by any other person in a tax return filed under Québec legislation for the year or any other year.

❑ Refund or other form of assistance

For the purposes of calculating the tax credit, an individual's eligible expenditures must be reduced, if applicable, by the amount of any government assistance other than the assistance allowed under the Rénoclimat program,[10] any non-governmental assistance,[11] any refund or other form of assistance including an indemnity paid under an insurance contract that the individual or any other person – other than the person acting as the contractor for the execution of the work – received or is entitled to receive in relation to the execution of recognized work stipulated in a renovation agreement entered into regarding an eligible dwelling of the individual.

9 Such as the refundable or non-refundable tax credit for medical expenses.

10 See note 1.

11 For example, the assistance allowed by Gaz Métro Limited Partnership for the replacement of a natural gas central heating appliance or a manufacturer's rebate.

List of recognized eco-friendly renovation work

A. Work relating to the envelope of the dwelling

A1 Insulation of the roof, exterior walls, foundations and exposed floors

- The insulation materials used for insulation must not contain urea formaldehyde or they must have low levels of volatile organic compounds (VOC) certified GREENGUARD or EcoLogo environmental choice. In addition, the insulating value must satisfy the following standards:
  - insulation of the attic: the insulating value achieved must be at least R-41 (RSI 7.22);
  - insulation of the flat roof or cathedral ceiling: the insulating value achieved must be at least R-28 (RSI 4.93);
  - insulation of the exterior walls: the increase in the insulating value must be at least R-3.8 (RSI 0.67);
  - insulation of the basement (including the header area): for the walls, the insulating value achieved must be at least R-17 (RSI 3.0), while for the header area, the insulating value achieved must be at least R-20 (RSI 3.52);
  - insulation of the crawl space (including the header area): for the exterior walls (including header area), the insulating value achieved must be at least R-17 (RSI 3.0), while for the floor area above the crawl space, the insulating value achieved must be at least R-24 (RSI 4.23);
  - insulation of exposed floors: the insulating value achieved must be at least R-29.5 (RSI 5.20).

A2 Sealing

- Water-proof sealing of the foundations.
- Air sealing of the envelope of the dwelling or of a portion of it (walls, doors, windows, skylights, etc.).

A3 Installation of doors or windows

- Replacement or addition of doors, windows and skylights with ENERGY STAR qualified models for the climate zone where the dwelling is located.

B. Work relating to the mechanical systems of the dwelling

B1 Heating system

- Replacement of a propane or natural gas heating system appliance with one of the following appliances using the same fuel:
  - an ENERGY STAR qualified furnace with an annual fuel utilization efficiency (AFUE) of at least 95% and equipped with a brushless direct current (DC) motor;
  - a zero-clearance furnace with an AFUE of at least 95%, if the dwelling is a mobile home;
  - an ENERGY STAR qualified boiler with an AFUE of at least 95%.
- Replacement of an indoor wood-burning system or appliance with one of the following:
  - an indoor wood-burning system or appliance that complies with the CSA-B415.1-10 standard or the 40 CFR Part 60 Subpart AAA standard of the Environmental Protection Agency (EPA) of the United States on wood-burning appliances. However, appliances not tested by the EPA are not eligible unless they have been certified under the CSA-B415.1-10 standard;
  - an indoor pellet-burning appliance (including stoves, furnaces and boilers that burn wood, corn, grain or cherry pits);
  - an indoor masonry heater.
- Replacement of an solid fuel-fired outdoor boiler with an outdoor wood-burning heating system that complies with the CAN/CSA-B415.1 standard or the Outdoor Wood-fired Hydronic Heater program of the Environmental Protection Agency (EPA) (OWHH Method 28, phase 1 or 2), provided the capacity of the new system is equal to or smaller than the capacity of the one it replaces.

B1 Heating system (continued)

- Installation of an ENERGY STAR qualified central split or ductless mini-split air-source heat pump including an outdoor unit and at least one indoor head per floor (excluding the basement) that has an Air-Conditioning, Heating, and Refrigeration Institute (AHRI) number and satisfies the following minimum requirements:
  - a Seasonal Energy Efficiency Ratio (SEER) of 14.5;
  - an Energy Efficiency Ratio (EER) of 12.0;
  - a Heating Seasonal Performance Factor (HSPF) of 7.1 for region V;
  - a heating capacity of 12 000 Btu/h.
- Installation of a geothermal system certified by the Canadian GeoExchange Coalition (CGC). A CGC-certified company must install the heat pump in accordance with the CAN/CSA-C448 standard. The CGC must also certify the system after installation.
- Replacement of the heat pump of an existing geothermal system. A company certified by the Canadian GeoExchange Coalition (CGC) must install the heat pump in accordance with the CAN/CSA-C448 standard.
- Replacement of a heating oil system with a system using propane or natural gas or replacement of a propane heating system with a system using natural gas, provided the new system uses one of the following heating appliances:
  - an ENERGY STAR qualified furnace with an annual fuel utilization efficiency (AFUE) of at least 95% and equipped with a brushless direct current (DC) motor;
  - a zero-clearance furnace with an AFUE of at least 95%, if the dwelling is a mobile home;
  - an ENERGY STAR qualified boiler with an AFUE of at least 95%.
- Replacement of a heating oil, propane or natural gas system with a system using electricity.
- Replacement of a heating oil, propane, natural gas or electricity system with a qualified integrated mechanical system (IMS) that is CSA-P.10-07 certified and achieves the premium performance rating.(1)
- Installation of solar thermal panels that comply with the CAN/CSA-F379 standard.
- Installation of combined photovoltaic-thermal solar panels that comply with the CAN/CSA-C61215-08 and CAN/CSA-F379 standards.

B2 Cooling system

- Replacement of a window air-conditioning unit or central air-conditioning system with an ENERGY STAR qualified central split or ductless mini-split air-conditioning system including an outdoor unit and at least one indoor head per floor (excluding the basement), provided the appliance has an Air-Conditioning, Heating, and Refrigeration Institute (AHRI) number and satisfies the following minimum requirements:
  - a Seasonal Energy Efficiency Ratio (SEER) of 14.5;
  - an Energy Efficiency Ratio (EER) of 12.0.
- Replacement of a central air-conditioning system with an ENERGY STAR qualified central split or ductless mini-split air-source heat pump including an outdoor unit and at least one indoor head per floor (excluding the basement) that has an Air-Conditioning, Heating, and Refrigeration Institute (AHRI) number and satisfies the following minimum requirements:
  - a Seasonal Energy Efficiency Ratio (SEER) of 14.5;
  - an Energy Efficiency Ratio (EER) of 12.0;
  - a Heating Seasonal Performance Factor (HSPF) of 7.1 for region V;
  - a heating capacity of 12 000 Btu/h.

B3 Hot water system

- Replacement of a propane or natural gas water heater with one of the following appliances using the same fuel:
  - an ENERGY STAR qualified instantaneous water heater that has an energy factor (EF) of at least 0.82;
  - an ENERGY STAR qualified instantaneous condensing water heater that has an EF of at least 0.90;
  - a condensing storage-type water heater that has a thermal efficiency of at least 95%.
- Replacement of an oil-fired water heater with a water heater using propane or natural gas or replacement of a propane-fired water heater with a water heater using natural gas, provided the new water heater is one of the following:
  - an ENERGY STAR qualified instantaneous water heater that has an energy factor (EF) of at least 0.82;
  - an ENERGY STAR qualified instantaneous condensing water heater that has an EF of at least 0.90;
  - a condensing storage-type water heater that has a thermal efficiency of at least 95%.
- Replacement of a heating oil, propane or natural gas water heater with a water heater using electricity.
- Installation of a solar hot water system that provides a minimum energy contribution of seven gigajoules per year (GJ/yr) and is CAN/CSA-F379 certified, provided such system appears on the CanmetENERGY Performance Directory of Solar Domestic Hot Water Systems.
- Installation of a drain-water heat recovery system.
- Installation of solar thermal panels that comply with the CAN/CSA-F379 standard.
- Installation of combined photovoltaic-thermal solar panels that comply with the CAN/CSA-C61215-08 and CAN/CSA-F379 standards.

B4 Ventilation system

- Installation of an ENERGY STAR qualified heat recovery ventilator or energy-recovery ventilator certified by the Home Ventilating Institute (HVI) and listed in Section 3 of their product directory (Certified Home Ventilating Products Directory). In addition, where installation makes it possible to replace an older ventilator, the new appliance must be more efficient than the older one.

C. Water conservation and quality

- Installation of an underground rain water recovery tank.
- Construction, renovation, modification or rebuilding of a system for the discharge, collection and disposal of waste water, toilet effluents or grey water in accordance with the *Regulation respecting waste water disposal systems for isolated dwellings*.(2)
- Restoration of a buffer strip in accordance with the requirements of the *Protection Policy for Lakeshores, Riverbanks, Littoral Zones and Floodplains*.(3)

D. Soil quality

- Decontamination of fuel oil-contaminated soil in accordance with the requirements of the *Soil Protection and Contaminated Sites Rehabilitation Policy*.(4)

E. Other

- Installation of a green roof that meets the Leadership in Energy and Environmental Design (LEED) certification standards.
- Installation of photovoltaic solar panels that comply with the CAN/CSA-C61215-08 standard.
- Installation of a domestic wind turbine that complies with the CAN/CSA-C61400-2-08 standard.

(1) This system encompasses the domestic heating, ventilation and heat recovery functions.
(2) CQLR, chapter Q-2, r. 22.
(3) CQLR, chapter Q-2, r. 35. This policy is applied in accordance with municipal zoning and urban planning bylaws.
(4) This policy is published by Les Publications du Québec and is available on the Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs website at www.mddefp.gouv.qc.ca/sol/terrains/politique-en/.

2. FISCAL MEASURES TO FOSTER INVESTMENT BY MANUFACTURING SMEs

As part of Québec's economic policy **Putting Jobs First,** the tax legislation will be amended to stimulate business investment by targeting manufacturing SMEs in particular.

First, improvements will be made to the tax credit for investments relating to manufacturing and processing equipment and, second, two new refundable tax credits will be introduced in relation to buildings used in the course of manufacturing or processing activities by Québec manufacturing SMEs as well as regarding their integration of information technologies.

2.1 Improvement to the tax credit for investments relating to manufacturing and processing equipment

Briefly, a qualified corporation[12] that acquires qualified property, during a taxation year, may receive, regarding its eligible expenses, the tax credit for investments relating to manufacturing and processing equipment (the "tax credit for investments") for such taxation year.

The base rate of the tax credit for investments is 5%. This rate can be increased up to 40% where the qualified property is acquired for use mainly in a remote zone.[13] It can reach 30% or 35% where the qualified property is acquired for use mainly in the eastern part of the Bas-Saint-Laurent administrative region,[14] depending on whether or not the corporation, or a corporation with which it is associated, receives the tax credit for job creation in the resource regions, the Vallée de l'aluminium or Gaspésie and certain maritime regions of Québec[15] ("tax credit for job creation").

12 The expression "qualified corporation", for the purposes of the tax credit for investments, is defined in section 1029.8.36.166.40 of the *Taxation Act* (CQLR, chapter I-3). Moreover, a corporation that is a member of a qualified partnership that acquires qualified property may receive the tax credit for investments relating to manufacturing and processing equipment in proportion to its share of the qualified partnership's income or loss.

13 Remote zones consist of the following administrative regions: Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine.

14 The eastern portion of the Bas-Saint-Laurent administrative region consists of the following regional county municipalities (RCMs): La Matapédia, La Matanie and La Mitis.

15 This tax credit is stipulated in Division II.6.6.6.1 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act*. To benefit from the rate of the tax credit that may reach 35%, for a taxation year, a qualified corporation must not have received the tax credit for job creation regarding the calendar year ending in the taxation year in which the tax credit for investments is claimed. If the qualified corporation is associated with other corporations, in the taxation year, no other associated corporation must have received the tax credit for job creation for a taxation year ending in the taxation year of the qualified corporation.

Accordingly, the base rate can be increased up to 20% or 25% where the qualified property is acquired for use mainly in an intermediate zone,[16] depending on whether or not the corporation, or a corporation with which it is associated, receives the tax credit for job creation.[17] It can reach 10% otherwise.

The tax credit for investments to which an eligible corporation is entitled, for a taxation year, can be deducted from its income tax otherwise payable for such taxation year. The portion of the tax credit for investments relating to a taxation year that cannot be applied against income tax payable by the corporation for such taxation year may be refunded, in whole or in part, or carried over.

For a qualified corporation to benefit fully from a higher rate and the refundable nature of the tax credit for a taxation year, its paid-up capital,[18] for such year, must not exceed $250 million. Moreover, a qualified corporation may benefit from the increase in the rate of the tax credit in part and from its refundable nature in part where its paid-up capital for such year is between $250 million and $500 million. The increase in the rate of the tax credit declines linearly for paid-up capital between $250 million and $500 million. A corporation whose paid-up capital reaches $500 million can receive only the base rate of 5% and no part of the tax credit is refundable.

In addition, a qualified corporation can benefit from a higher rate and the refundable nature of the tax credit for investments, for a taxation year, only in regard to the eligible expenses it incurred that do not exceed a cumulative cap of $75 million of eligible expenses that can benefit from a higher rate and the refundable nature of the tax credit. Briefly, such cumulative limit must be reduced by the eligible expenses incurred by the qualified corporation and by the corporations with which it is associated,[19] for their taxation years ending during the 24-month period preceding the beginning of the taxation year of the qualified corporation and that enabled the qualified corporation (or a corporation associated with it) to benefit from a higher rate, the refundable nature or both these benefits.[20]

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16 Intermediate zones consist of the following administrative regions and RCMs: the Saguenay–Lac-Saint-Jean and the Mauricie administrative regions, and the Antoine-Labelle, Kamouraska, La Vallée-de-la-Gatineau, Les Basques, Pontiac, Rimouski-Neigette, Rivière-du-Loup and Témiscouata RCMs.

17 To benefit from the rate of the tax credit that may reach 25%, for a taxation year, a qualified corporation must not have received the tax credit for job creation regarding the calendar year ending in the taxation year in which the tax credit for investments is claimed. If the qualified corporation is associated with other corporations, in the taxation year, no other associated corporation must have received the tax credit for job creation for a taxation year ending in the taxation year of the qualified corporation.

18 Where the qualified corporation is associated with one or more other corporations, in the taxation year, the rate of the tax credit and its refundable nature are determined taking into account the paid-up capital of the qualified corporation and that of the corporations with which it is associated in the taxation year.

19 Special rules are stipulated, in particular for a member corporation of a partnership or for property used in the course of a joint venture.

20 The cumulative limit of $75 million of a qualified corporation, for a taxation year, must also be reduced by the eligible expenses incurred by the qualified corporation or by the corporations with which it is associated, for their taxation years ending during the 24-month period preceding the beginning of the given taxation year of the qualified corporation, and that could have enabled the corporation concerned to benefit from the refundable nature of the tax credit had it not had income tax or tax on capital allowing it to fully utilize the tax credit.

A qualified property,[21] for the purposes of the tax credit for investments, is a property included in Class 29 of Schedule B of the *Regulation respecting the Taxation Act,*[22] in Class 43 of such schedule, in Class 52 of such schedule used mainly for making or processing articles intended for sale or lease or a property acquired after March 20, 2012 for use mainly in the course of ore smelting, refining or hydrometallurgy activities, other than ore from a gold or silver mine, extracted from a mineral resource located in Canada.[23] It must begin to be used within a reasonable time of its acquisition and be used during a period of at least 730 days, only in Québec and mainly in the course of carrying on a business. It must have been acquired before January 1, 2018 and, prior to its acquisition, it must not have been used for any purpose nor acquired to be used or rented for any purpose whatsoever.

Briefly, Class 29 of Schedule B of the *Regulation respecting the Taxation Act* includes property, such as machinery or equipment, acquired by a taxpayer before January 1, 2016 and used in Canada mainly for making or processing articles intended for sale or lease. Such property acquired after December 31, 2015 will be included in Class 43 of that schedule.

Class 43 of Schedule B of the *Regulation respecting the Taxation Act* also includes property, such as machinery or equipment, acquired by a taxpayer for use exclusively in Canada and mainly in the course of processing ore extracted from a mineral resource located in a country other than Canada.[24]

Class 52 of Schedule B of the *Regulation respecting the Taxation Act* includes property acquired after January 27, 2009 and before February 1, 2011 that is general-purpose electronic data processing equipment and systems software for that equipment and ancillary data processing equipment situated in Canada.[25]

21 The expression “qualified property”, for the purposes of the tax credit for investments, is defined in section 1029.8.36.166.40 of the *Taxation Act*.

22 CQLR, chapter I-3, r. 1.

23 In the 2009-2010 budget speech, it was announced that Québec's tax legislation and regulations would be harmonized with the federal tax legislation and regulations as far as the accelerated depreciation deduction applicable to certain types of property, including eligible computers and system software, is concerned. At that time, it was specified that property consisting of eligible computers and system software could constitute qualified property for the purposes of the tax credit for investment (see: MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2009-2010, Additional Information on the Budgetary Measures*, March 19, 2009, p. A.78). Such qualified computers and system software acquired during the period covered by the accelerated depreciation deduction are included in property of Class 52 of Schedule B of the *Regulation respecting the Taxation Act*.

24 Such property is mentioned in paragraph *b* of Class 43 of Schedule B of the *Regulation respecting the Taxation Act*.

25 However, such property does not include property that consists of or is used mainly as electronic process control or monitor equipment, electronic communications control equipment, systems software for any such property, date handling equipment unless it is ancillary to general-purpose electronic data processing equipment.

To further encourage investment in manufacturing and processing equipment by Québec manufacturing SMEs and to stimulate the acquisition of general-purpose electronic data processing equipment for use in manufacturing or processing, two amendments will be made to the tax legislation. First, an additional increase of up to ten percentage points (10%) may be added to the rate of the tax credit for investments applicable to a qualified corporation,[26] for a taxation year, regarding eligible expenses it incurs while its activities are mainly manufacturing or processing. The rate of the additional increase the qualified corporation may enjoy, for a taxation year, will be based on the paid-up capital of the qualified corporation for such taxation year.

Second, the definition of the expression "qualified property" will be amended such that general-purpose electronic data processing equipment, systems software for that equipment and ancillary data processing equipment used mainly in the course of manufacturing or processing activity may qualify as qualified property for the purposes of the tax credit for investments.

2.1.1 Additional increase in the rate of the tax credit for investments for manufacturing SMEs

The tax legislation will be amended so that a qualified corporation, for a taxation year, may benefit, for the taxation year, of an additional increase in the rate of the tax credit for investments of up to ten percentage points (10%) regarding its expenses eligible for the additional increase for a taxation year.

In addition, a qualified corporation, for a taxation year, that is a member of a qualified partnership at the end of the fiscal period of the partnership ending in the taxation year, may benefit of this additional increase in the rate of the tax credit for investments regarding its share of the expenses eligible for the additional increase of the qualified partnership for the fiscal period.

A qualified corporation may benefit fully from this additional increase where its paid-up capital[27] does not exceed $15 million. Such additional increase will be reduced linearly where the qualified corporation's paid-up capital is between $15 million and $20 million. A qualified corporation whose paid-up capital is $20 million or more will not receive this additional increase.

This additional increase will be added to the rate of the tax credit for investments the qualified corporation may claim regarding its eligible expenses or its share of the eligible expenses of a qualified partnership, for the taxation year, determined according to the rules applicable to the tax credit for investments.

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26 A qualified corporation that is a member of a qualified partnership may, under certain conditions, benefit of the additional increase regarding eligible expenses incurred by the qualified partnership where the activities of the partnership are mainly manufacturing or processing.

27 Where the qualified corporation is associated with other corporations, in a taxation year, the rate of the additional increase it may claim, for the taxation year, shall be determined taking into account its paid-up capital and that of the corporations with which it is associated in the taxation year.

❑ Expenses eligible for the additional increase

The expression “expenses eligible for the additional increase” of a qualified corporation, for a taxation year, means the expenses that are “eligible expenses”, for the taxation year, for the purposes of the tax credit for investments,[28] and that are incurred by the qualified corporation for a taxation year when it is a qualified manufacturing corporation.

Where the expenses are incurred by a qualified partnership, the expression “expenses eligible for the additional increase”, for a fiscal period, means the expenses that are “eligible expenses”, for the fiscal period, for the purposes of the tax credit for investments, and that are incurred by the qualified partnership for a fiscal period when it is a qualified manufacturing partnership.

❑ Qualified manufacturing corporation

The expression “qualified manufacturing corporation” means, for a taxation year, a qualified corporation, as this expression is defined for the purposes of the tax credit for investments,[29] whose proportion of manufacturing or processing activity (PMPA), for the taxation year, exceeds 50%.

❑ Qualified manufacturing partnership

The expression “qualified manufacturing partnership” means, for a fiscal period, a qualified partnership, as this expression is defined for the purposes of the tax credit for investments,[30] whose PMPA, for the fiscal period, exceeds 50%.

❑ Proportion of manufacturing or processing activity

The PMPA of a qualified corporation, for a taxation year, or a qualified partnership, for a fiscal period, corresponds to the result of the following formula:

$$\text{Proportion of manufacturing or processing activity (PMPA)} = \frac{\text{MPSW}}{\text{SW}}$$

Where:

— MPSW corresponds to all manufacturing or processing salaries or wages;

— SW corresponds to all salaries or wages.

28 This expression is defined in section 1029.8.36.166.40 of the *Taxation Act*.

29 See preceding note.

30 See note 28.

Salary or wage

For the calculation of the PMPA of a qualified corporation for a taxation year or a qualified partnership for a fiscal period, as the case may be, the expression “salary or wage” shall mean the salary or wage incurred by the qualified corporation or the qualified partnership, regarding its employees for the taxation year or the fiscal period, as the case may be.[31]

Manufacturing or processing salary or wage

For the calculation of the PMPA of a qualified corporation for a taxation year or a qualified partnership for a fiscal period, as the case may be, the expression “manufacturing or processing salary or wage” shall mean the portion of the salary or wage incurred by the qualified corporation or the qualified partnership, regarding an employee, represented by dividing the time such employee spends on manufacturing or processing duties by all of the employee’s work time.

To that effect, an employee who devotes more than 90% of his work time to manufacturing or processing duties of the qualified corporation, for a taxation year, or of the qualified partnership, for a fiscal period, shall be deemed to devote all of his time to such duties for the taxation year or the fiscal period, as the case may be.

Manufacturing or processing activities

In general, the notion of manufacturing refers to the creation of something (making or assembling a good, for example) or crafting, starting from something, an object (making a part intended to be incorporated into a machine, for example). As for the notion of processing, it generally refers to the technique of preparation, manipulation, or of any activity designed to produce a physical or chemical transformation in a product, article or substance, other than the transformation resulting from the natural growth process.

Accordingly, without giving a definition of what manufacturing or processing consists of, the tax regulations specify what it does not consist of.[32] The specification in the tax regulations will apply for the qualification of a qualified manufacturing corporation or a qualified manufacturing partnership, as the case may be, and for the determination of the PMPA.

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31 These are the salaries and wages established according to Chapters I and II of Title II of Book III of the *Taxation Act*. However, salaries and wages do not include remuneration based on profits or a bonus, as the case may be, where it relates to an employee who either is a shareholder of the corporation and owns, directly or indirectly, at any time of the taxation year of the corporation, at least 10% of the issued shares of any class of the capital stock of the corporation or of any other corporation related to it, or is a member of the partnership and is entitled, directly or indirectly, to a share of at least 10% of the partnership’s income or loss.

32 *Regulation respecting the Taxation Act* , sec. 130R12.

❑ Calculation of the additional increase in the rate of the tax credit for investments

The additional increase in the rate of the tax credit for investments that a qualified corporation may claim, for a taxation year, regarding its expenses eligible for the additional increase, for the taxation year, or its share of the expenses eligible for the additional increase of a qualified partnership, for a fiscal period ending in the taxation year, will be ten percentage points (10%) where the qualified corporation's paid-up capital does not exceed $15 million, for the taxation year.

Where its paid-up capital, for a taxation year, exceeds $15 million but is no more than $20 million, the rate of the additional increase in the tax credit for investments it may claim, for the taxation year, regarding its expenses eligible for the additional increase, for the taxation year, and its share of the expenses eligible for the additional increase of a qualified partnership, for the fiscal period ending in the taxation year, will be reduced linearly according to the usual rules. Accordingly, a corporation whose paid-up capital reaches $20 million, for a taxation year, may not claim the additional increase in the rate of the tax credit for investments, for such taxation year.

As an example, the rate of the tax credit for investments that will apply to a qualified corporation with paid-up capital of $18 million, for a taxation year, regarding its expenses eligible for the additional increase for the taxation year, that relate to a qualified property acquired for use in a remote zone will be 44%.[33]

For the calculation of the additional increase in the tax credit for investments, for a taxation year, the paid-up capital of a qualified corporation, for the taxation year, will be determined according to the usual rules, taking into account the paid-up capital of any corporations with which the corporation is associated in the taxation year.

❑ Effect of the cumulative cap of $75 million on the additional increase in the rate of the tax credit for investments

Where, because the cumulative cap of $75 million of eligible expenses that can give rise to the improved tax credit, to the refundable nature of the tax credit or to both of these benefits has been reached, a qualified corporation may not receive these benefits, for a taxation year, regarding all or part of its eligible expenses, for the taxation year, or regarding all or part of its share of the eligible expenses of a qualified partnership, for a fiscal period ending in the taxation year, such eligible expenses regarding which it may not claim such benefits, for the taxation year, may not give rise to the additional increase in the rate of tax credit for investments.

33 This 44% rate corresponds to the total of the increased rate applicable to the qualified corporation regarding its eligible expenses incurred in relation to qualified property acquired for use in a remote region, 40%, and an additional increase of 4%. The rate of the additional increase is calculated as follows: [10% - [10% x (18 – 15) / 5]]. This 44% rate will apply regarding expenses eligible for the additional increase provided the qualified corporation has not reached the $75 million cap on eligible expenses that can benefit from the increased rate and the refundable nature of the tax credit.

❑ Application date

To qualify as "expenses eligible for the additional increase", the eligible expenses must be incurred by a qualified manufacturing corporation or by a qualified manufacturing partnership regarding a qualified property acquired after the day of publication of this information bulletin, but before January 1, 2018. However, such qualified property must not be:

— a property acquired in accordance with a written obligation contracted before the day that follows the day of publication of this information bulletin;

— a property whose construction by the taxpayer or on his behalf had started the day of publication of this information bulletin.

❑ Other rules maintained

The other rules currently applicable to the tax credit for investments remain unchanged.

2.1.2 Change to the definition of "qualified property"

The definition of "qualified property" for the purposes of the tax credit for investments, will be changed so that property acquired by a qualified corporation or by a qualified partnership that is included in Class 50 of Schedule B of the *Regulation respecting the Taxation Act* is qualified property if such property is used mainly for the manufacturing or processing of articles intended for sale or lease.

The property covered by this change will be property that would have been included in Class 29 of Schedule B of the *Regulation respecting the Taxation Act*, under subparagraph vi of subparagraph *b* of the first paragraph, if such subparagraph vi were read by replacing "28 January 2009" with "1 January 2018" and if subparagraph *c* of the first paragraph of such class were not taken into account.

To qualify, such property must, in addition, satisfy the other qualification conditions stipulated by the tax legislation and be acquired after January 31, 2011, but before January 1, 2018.

■ Time allowed to claim the tax credit for investments

The tax legislation will be amended to allow a qualifying corporation to benefit of the tax credit for investments for a taxation year regarding property of Class 50 that satisfies the conditions stated above even if the application for such tax credit is filed more than 12 months after the filing deadline applicable to it for the year.

However, to benefit of the tax credit for investments regarding such property of Class 50, for a taxation year, the qualified corporation must have filed its application by the later of either April 7, 2014 or the last day of the 12-month period following the filing deadline applicable to it for the taxation year for which the tax credit for investments regarding such qualified property is claimed.

2.2 Introduction of a refundable tax credit relating to buildings used in the course of manufacturing or processing activities by a Québec manufacturing SME

To support Québec manufacturing SMEs that must acquire a new building or make an addition to an existing building as part of the acquisition of manufacturing or processing equipment, the tax legislation will be amended to introduce a new temporary refundable tax credit.

Expenditures relating to such building or addition to a building must be incurred by a qualified corporation or qualified partnership whose activities are mainly manufacturing or processing activities. Such expenditures will be subject to a cumulative cap of $150 000. In addition, they may only give rise to tax assistance if the corporation or partnership, as the case may be, acquired qualified property, for the purposes of the tax credit for investments relating to manufacturing and processing equipment[34] ("tax credit for investments") for a minimum of $25 000.

Accordingly, a qualified corporation, for a taxation year, that acquires a building or makes an addition to a building may receive, under certain conditions, for the taxation year, a refundable tax credit of up to 50% of the eligible expenditures relating to such building or addition. The rate of the tax credit will be determined on the basis of where the building is located and the paid-up capital of the qualified corporation for the taxation year.

Similarly, a qualified corporation, for a taxation year, that is a member of a qualified partnership at the end of the partnership's fiscal period that ends in the taxation year, may receive, under certain conditions, for the taxation year, this refundable tax credit regarding its share of the eligible expenditures relating to a building or an addition to a building incurred by the qualified partnership.

❑ Qualified corporation

For the purposes of the refundable tax credit relating to buildings used in the course of manufacturing or processing activities, a qualified corporation means, for a taxation year, a corporation, other than an excluded corporation, that, for the taxation year, has an establishment in Québec and carries on a business there.

■ Excluded corporation

The expression "excluded corporation", for a taxation year, means:

— a corporation that is tax-exempt for the year;

— a Crown corporation or a wholly-controlled subsidiary of such a corporation;

34 The rules applicable to the tax credit for investments relating to manufacturing and processing equipment are stipulated in sections 1029.8.36.166.40 to 1029.8.36.166.60 of the *Taxation Act* (CQLR, chapter I-3).

— an aluminum producing corporation for the year, as this expression is defined for the purposes of the tax credit for investments;[35]

— an oil refining corporation for the year, as this expression is defined for the purposes of the tax credit for investments.[36]

❑ Qualified partnership

For the purposes of the refundable tax credit relating to buildings used in the course of manufacturing or processing activities, a qualified partnership means, for a fiscal period, a partnership, other than a partnership that is excluded for the fiscal year, that, for the fiscal year, has an establishment in Québec and carries on a business there.

■ Excluded partnership

The expression “excluded partnership”, for a fiscal period, means a partnership that, at any time of the fiscal period, carries on an aluminum producing business or an oil refining business.

❑ Qualified building

A qualified building of a qualified manufacturing corporation, for a taxation year, or of a qualified manufacturing partnership, for a fiscal period, means a building located in Québec, or an addition to a building located in Québec, acquired by the qualified manufacturing corporation, for the taxation year, or by the qualified manufacturing partnership, for the fiscal period, that is included in Class 1, Class 3 or Class 6 of Schedule B of the *Regulation respecting the Taxation Act* or that is included in Class 10 of Schedule B of the *Regulation respecting the Taxation Act* by subparagraph *a* of its second paragraph.[37]

To qualify as a qualified building, a building or an addition to a building must be used mainly for manufacturing or processing activities[38] and mainly in the course of carrying on a business other than a recognized business in the course of which a major investment project or a large investment project (THI) is carried out or in the process of being carried out. It must not be used in the course of operating an ethanol production plant. In addition, the building or addition to the building must not have been used or acquired or leased to be used or leased in any way whatsoever before being acquired by the corporation or the partnership, as the case may be.

Accordingly, for the purposes of this tax credit, the expressions “manufacturing or processing activities”, “qualified manufacturing corporation” and “qualified manufacturing partnership” will have the same meanings as those that apply to the additional increase in the rate of the tax credit for investments for manufacturing SMEs announced in this information bulletin.[39]

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35 *Taxation Act*, sec. 1029.8.36.166.40.

36 *Ibid.*

37 A qualified building also means a building that would be included in these classes were it not for the put-in-service rules stipulated in the tax legislation and that satisfies all the other conditions.

38 In the case of an addition to a building, only the portion of the building comprised of the addition will be considered to determine if the condition regarding use for manufacturing or processing activities is satisfied.

39 See subsection 2.1.1.

❑ Expenditures relating to the qualified building

The expenditures relating to a qualified building of a qualified manufacturing corporation, for a taxation year, or of a qualified manufacturing partnership, for a fiscal period, mean the expenditures incurred by the qualified manufacturing corporation, for the taxation year, or by the qualified manufacturing partnership, for the fiscal period, for the acquisition of a qualified building that are included, at the end of the taxation year or fiscal period, in the capital cost of the building, or that would be so included were it not for the put-in-service rules stipulated in the tax legislation.

In addition, the expenditure relating to the qualified building must be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit attributable to such expenditure, according to the usual rules.

Such expenditures must be incurred after the date of publication of this information bulletin, but before January 1, 2018.

The other rules that apply to the qualification of expenses as eligible expenses, for the purposes of the tax credit for investments,[40] will apply for the qualification of expenditures relating to a qualified building.

❑ Eligible expenditures relating to a qualified building of a qualified corporation

The eligible expenditures relating to a qualified building of a qualified corporation, for a taxation year, mean the total of the expenditures relating to the qualified building incurred by the corporation, for the taxation year or for a prior taxation year, that exceeds the portion of such expenditures in regard to which the qualified corporation received the refundable tax credit relating to buildings used in the course of manufacturing or processing activities, for a prior taxation year.

An expenditure relating to a qualified building may qualify as an eligible expenditure relating to a qualified building, for a taxation year, only if the qualified corporation acquired, during the taxation year or the prior taxation year, qualified property for the purposes of the tax credit for investments, for a minimum of $25 000.

Where the qualified corporation is associated with one or more other corporations, in a taxation year, the minimum amount of $25 000 shall be determined taking into account the qualified property acquired by the associated corporations during a taxation year ending in the taxation year of the qualified corporation or its prior taxation year.

Property acquired from a person with whom the corporation, a specified shareholder of the corporation or, where the corporation is a cooperative, a designated member of the cooperative is not at arm’s length may not be included for the purposes of the $25 000 amount.

40 See the definition of “eligible expenses” in section 1029.8.36.166.40 of the *Taxation Act*.

❑ Eligible expenditures relating to a qualified building of a qualified partnership

The eligible expenditures relating to a qualified building of a qualified partnership, for a fiscal period, mean the total of the expenditures relating to the qualified building incurred by the partnership, for the fiscal period or for a prior fiscal period, that exceeds the portion of such expenditures that it attributed to its members for a prior fiscal period.[41]

An expenditure relating to a qualified building may qualify as an eligible expenditure relating to a qualified building, for a fiscal period, only if the qualified partnership acquired, during the fiscal period or its prior fiscal period, qualified property for the purposes of the tax credit for investments, for a minimum of $25 000.

Property acquired from a member corporation of the partnership or from a person with whom such a corporation, a specified shareholder of the corporation or, if it is a cooperative, a designated member of the cooperative, is not at arm's length may not be included for the purposes of the $25 000 amount.

In addition, the total of the eligible expenditures relating to all the qualified buildings of a qualified partnership, for a fiscal period, may not exceed an amount corresponding to the amount by which $150 000 exceeds the total of the eligible expenditures of the qualified partnership relating to all the qualified buildings that it attributed to its members for a prior fiscal period.

❑ Determination of the tax credit

The refundable tax credit a qualified corporation may receive, for a taxation year, regarding its eligible expenditures relating to a qualified building, as well as regarding the share of eligible expenditures relating to a qualified building of a qualified partnership attributed to the corporation, for a fiscal period of the partnership that ended in the taxation year, will correspond to the lesser of the following amounts:

— the product obtained by multiplying all the eligible expenditures of the qualified corporation relating to the qualified building, for the taxation year, and the share attributed to it of the eligible expenditures of the qualified partnership relating to the qualified building, for the year, by the rate of the tax credit applicable to it for the year in regard to the eligible expenditures relating to the qualified building;

— the product obtained by multiplying the balance of the qualified corporation's cumulative cap, for the taxation year, by the rate of the tax credit applicable to it for the year in regard to the eligible expenditures relating to the qualified building.

[41] The expenditures relating to a qualified building as well as the eligible expenditures relating to a qualified building of a qualified partnership that are attributable to its members mean the fraction of such expenditures that comes to each such member in proportion to its share of the income or loss of the partnership for each fiscal period for the purposes of this tax credit.

The balance of a qualified corporation's cumulative cap, for a taxation year, corresponds to the amount by which $150 000 exceeds all of the qualified corporation’s expenditures relating to all its qualified buildings and the shares of expenditures of a qualified partnership attributed to the qualified corporation in regard to which the qualified corporation received the refundable tax credit for a prior taxation year.

Where, for a taxation year, the qualified corporation can receive this tax credit regarding eligible expenditures relating to more than one qualified building, the total of the amounts each of which represents the expenditures relating to a qualified building, including the share of such expenditures attributed to the qualified corporation by a partnership, in regard to which the qualified corporation receives the refundable tax credit, for the taxation year, may not exceed the balance of its cumulative cap for the taxation year.

In addition, where the qualified corporation is associated with one or more other corporations, in the taxation year, the balance of its cumulative cap, for such taxation year, must be determined including the expenditures relating to a qualified building in regard to which an associated corporation received the refundable tax credit, for a prior taxation year and for a taxation year ending in the taxation year of the qualified corporation, according to the usual rules.

■ Rate of the tax credit

The rate of the tax credit that a qualified corporation may receive, for a taxation year, will be determined on the basis of where the qualified building is located and the paid-up capital of the qualified corporation for the taxation year.

Where the paid-up capital of the qualified corporation, for a taxation year, does not exceed $15 million, the corporation may fully benefit from the applicable rate regarding eligible expenditures relating to a qualified building located on a given territory. Where the paid-up capital of the qualified corporation, for a taxation year, exceeds $15 million but is no more than $20 million, the rate will be reduced linearly and will reach zero where the paid-up capital of the qualified corporation, for such year, is $20 million or more. Accordingly, a qualified corporation whose paid-up capital reaches $20 million or more, for a taxation year, may not receive the tax credit.

In this regard, the paid-up capital of a qualified corporation, for the taxation year, will be determined taking into account the paid-up capital of corporations with which the corporation is associated in such taxation year, according to the usual rules.

▪ Rate of the tax credit applicable in a remote zone

The rate of the tax credit of a qualified corporation applicable in regard to eligible expenditures relating to a qualified building located in a remote zone, for a taxation year, will be 50% where the paid-up capital of the corporation, for the taxation year, does not exceed $15 million. This rate will be reduced linearly and will reach zero where the paid-up capital of the qualified corporation, for the taxation year, is $20 million or more.

The territories comprising the remote zones, for the purposes of the refundable tax credit, will be the same as those that comprise the remote zones for the purposes of the tax credit for investments.[42]

- **Rate of the tax credit applicable in the eastern part of Bas-Saint-Laurent**

The rate of the tax credit that will apply to a qualified corporation regarding eligible expenditures relating to a qualified building located in the eastern part of Bas-Saint-Laurent will be 45% where its paid-up capital, for the taxation year, does not exceed $15 million, it has not received the tax credit for job creation in the resource regions, in the Vallée de l'aluminium or in Gaspésie and certain maritime regions of Québec ("tax credit for job creation") for a calendar year that ends in the taxation year, and, if it is associated with other corporations in the taxation year, the corporations with which it is associated have not received the tax credit for job creation for a taxation year ending in the taxation year of the qualified corporation.

Where the qualified corporation or a corporation with which it is associated received the tax credit for job creation, the rate of the tax credit of the qualified corporation, for the taxation year, regarding eligible expenditures relating to a qualified building located in the eastern part of Bas-Saint-Laurent will be 40% where the paid-up capital of the qualified corporation, for the taxation year, does not exceed $15 million.

These rates of 45% and 40% will be reduced linearly and will reach zero where the paid-up capital of the qualified corporation, for the taxation year, is $20 million or more.

The territories comprising the eastern part of Bas-Saint-Laurent, for the purposes of the refundable tax credit, will be the same as those that comprise the eastern part of Bas-Saint-Laurent for the purposes of the tax credit for investments.[43]

- **Rate of the tax credit applicable in an intermediate zone**

The rate of the tax credit that will apply to a qualified corporation regarding eligible expenditures relating to a qualified building located in an intermediate zone will be 35% where its paid-up capital, for the taxation year, does not exceed $15 million, it has not received the tax credit for job creation for a calendar year that ends in the taxation year, and, if it is associated with other corporations in the taxation year, the corporations with which it is associated have not received the tax credit for job creation for a taxation year ending in the taxation year of the qualified corporation.

Where the qualified corporation or a corporation with which it is associated received the tax credit for job creation, the rate of the tax credit of the qualified corporation, for the taxation year, regarding eligible expenditures relating to a qualified building located in and intermediate zone will be 30% where the paid-up capital of the qualified corporation, for the taxation year, does not exceed $15 million.

These rates of 35% and 30% will be reduced linearly and will reach zero where the paid-up capital of the qualified corporation, for the taxation year, is $20 million or more.

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42 See note 13 for the list of administrative regions that make up the remote zones.

43 See note 14 for the list of regional county municipalities (RCMs) that make up the eastern part of Bas-Saint-Laurent.

The territories comprising the intermediate zones, for the purposes of the refundable tax credit, will be the same as those that comprise the intermediate zones for the purposes of the tax credit for investments.[44]

- **Rate of the tax credit applicable for other regions of Québec**

The rate of the tax credit of a qualified corporation in regard to eligible expenditures relating to a qualified building located in another region of Québec, for a taxation year, will be 20% where the paid-up capital of the corporation, for the taxation year, does not exceed $15 million. This rate will be reduced linearly and will reach zero where the paid-up capital of the qualified corporation, for the taxation year, is $20 million or more.

❑ Other details

The eligible expenditures relating to a qualified building must have been paid at the time the refundable tax credit is claimed.

Moreover, where a qualified building of a qualified corporation or a qualified partnership, as the case may be, is alienated before it begins to be used or does not begin to be used within a reasonable time, the refundable tax credit relating to buildings used in the course of manufacturing or processing activities will be recaptured by means of a special tax. In this regard, a building will be deemed not to have started to be used within a reasonable time if it is not used within a period of 48 months starting the last day of the taxation year or the fiscal period for which, as the case may be, the qualified corporation or the qualified partnership first incurred an expenditure relating to the qualified building.

In such a case, the special tax will correspond to the total of the tax credit the qualified corporation received regarding its eligible expenditures relating to the qualified building or its share of the eligible expenditures relating to the qualified building attributed to it by a partnership, as the case may be.

Moreover, where a qualified building of a qualified corporation or a qualified partnership, as the case may be, is not used mainly for manufacturing or processing activities on a continuous basis during 48 months after the date it started to be used, or is alienated by the qualified corporation or the qualified partnership within such 48-month period, this tax credit will be recaptured by means of a special tax. In this regard, the qualified building will be deemed to be used for manufacturing or processing activities even if such use ceases temporarily for grounds that are considered reasonable in the circumstances.

In such a case, the special tax will correspond to the product obtained by multiplying the amount of the tax credit the qualified corporation received regarding its eligible expenditures relating to the qualified building or its share of the eligible expenditures relating to the qualified building attributed to it by a partnership, as the case may be, by the fraction obtained by dividing, by 48, either the number of months during which the qualified building was not used mainly for manufacturing or processing activities, or the number of months between the one of the alienation and the end of the 48-month period. In this regard, a qualified building will be deemed to be used for manufacturing or processing activities for a complete month if it is used for more than 15 days during such month.

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44 See note 16 for the list of administrative regions and RCMs that make up the intermediate zones.

For the purposes of this special tax, where a qualified corporation alienates a qualified building in favour of a corporation with which it is associated, the tax credit will not be recaptured. However, if the corporation associated with the qualified corporation in turn alienates the qualified building to a third party, the rules indicated above will apply as if the qualified corporation had alienated the qualified building directly to such third party.

In addition, such special tax will not be levied where the qualified building is alienated because of its involuntary destruction.

❑ Application date

To qualify, a building, or an addition to a building, must be acquired after the date of publication of this information bulletin, but before January 1, 2018.

It must not be a building or an addition to a building that is:

— a property acquired in accordance with a written obligation contracted no later than the day of publication of this information bulletin;

— a property whose construction by the taxpayer or on his behalf had started the day of publication of this information bulletin.

2.3 Introduction of a refundable tax credit for the integration of information technologies in manufacturing SMEs

A company that makes intensive use of information technologies (IT) can generate more innovation and thus improve labour productivity. Integrating IT in a company's business processes is a key driver of productivity and competitiveness. In this regard, a company must have access to an efficient computer systems infrastructure and have an information system that optimizes the circulation of information.

Accordingly, to support Québec manufacturing companies that want to invest in technology and integrate IT in their business processes, a new refundable tax credit will be introduced on a temporary basis.

Briefly, a qualified corporation may, under certain conditions, claim a refundable tax credit in relation to its expenditures relating to the supply of a qualified management software package. This tax credit will be equal to 25% of the expenses relating to a qualified IT integration contract for which Investissement Québec has issued a certificate. However, the total amount of this tax credit a qualified corporation may receive regarding one or more qualified IT integration contracts, as the case may be, will be limited to $62 500.

❑ Qualified corporation and qualified partnership

For the purposes of the refundable tax credit for the integration of information technologies in manufacturing SMEs, the expressions “qualified corporation” and “qualified partnership” will have the same meanings as those that apply to the new refundable tax credit relating to buildings used in the course of manufacturing or processing activities announced in this information bulletin.[45]

❑ Expenditure relating to the supply of a qualified management software package

The expenditure relating to the supply of a qualified management software package of a qualified manufacturing corporation, for a taxation year, or of a qualified manufacturing partnership, for a fiscal period, means the expenditure incurred by the qualified manufacturing corporation, for the taxation year, or by the qualified manufacturing partnership, for the fiscal period, that is reasonable in the circumstances and corresponds to 80% of the amount of a qualified IT integration contract that can reasonably be attributed to the supply of a qualified management software package.

The “supply of a qualified management software package” will have the meaning given to this expression by the *Act respecting the sectoral parameters of certain fiscal measures*[46] and such supply must be intended for use mainly in Québec in the course of a business carried on there by the qualified corporation or the qualified partnership, as the case may be.

In addition, the expenditure relating to the supply of a qualified management software package must be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit attributable to such expenditure, according to the usual rules.

Moreover, the portion of a supply of a qualified management software package that is reasonably attributable to general-purpose electronic data processing equipment and systems software for that equipment and ancillary data processing equipment that otherwise gives rise to the tax credit for investments relating to manufacturing and processing equipment will be excluded from the amount of the qualified IT integration contract to determine the amount of an expenditure relating to the supply of a qualified management software package for the purposes of the refundable tax credit relating to the integration of information technologies in manufacturing SMEs.

Accordingly, for the purposes of this tax credit, the expressions “qualified manufacturing corporation” and “qualified manufacturing partnership” will have the same meanings as those that apply to the additional increase in the rate of the tax credit for investments for manufacturing SMEs announced in this information bulletin.[47]

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45 See subsection 2.2.

46 CQLR, chapter P-5.1.

47 See subsection 2.1.1.

❑ Expenses of a qualified corporation relating to a qualified IT integration contract

The expenses of a qualified corporation relating to a qualified IT integration contract, for a taxation year, mean the total of the expenditures relating to the supply of a qualified management software package incurred by the qualified corporation for the taxation year or for a prior taxation year that exceeds the portion of such expenditures regarding which it received the refundable tax credit relating to the integration of information technologies in manufacturing SMEs for a prior taxation year.

❑ Expenses of a qualified partnership relating to a qualified IT integration contract

The expenses of a qualified partnership relating to a qualified IT integration contract, for a fiscal period, mean the total of the expenditures relating to the supply of a qualified management software package incurred by the qualified partnership, for the fiscal period or for a prior fiscal period, that exceeds the portion of such expenditures that it attributed to its members for a prior fiscal period.[48]

In this regard, the total expenses of a qualified partnership relating to all its qualified IT integration contracts, for a fiscal period, may not exceed an amount corresponding to the amount by which $250 000 exceeds the total expenses of the qualified partnership relating to all its qualified IT integration contracts that it attributed to its members for a prior fiscal period.

❑ Determination of the tax credit

The refundable tax credit a qualified corporation may receive, for a taxation year, regarding its expenses relating to a qualified IT integration contract, as well as regarding the share of expenses of a qualified partnership relating to a qualified IT integration contract attributed to the qualified corporation, for a fiscal period of the partnership that ended in the taxation year, will correspond to the lesser of the following amounts:

— the product obtained by multiplying the total expenses of the qualified corporation relating to a qualified IT integration contract, for the taxation year, and the share attributed to it of the expenses of a qualified partnership relating to a qualified IT integration contract, for such year, by the rate of the tax credit applicable to it for such year;

— the product obtained by multiplying the balance of its cumulative cap, for the taxation year, by the rate of the tax credit applicable to it for such year.

48 The expenditures relating to the supply of a qualified management software package of an eligible partnership as well as the expenses of a qualified partnership relating to a qualified IT integration contract that are attributed to the partnership's member mean the fraction of such expenditures or expenses that comes to each member of the partnership in proportion to its share of the partnership's income or loss for each fiscal period for the purposes of this tax credit.

The balance of a qualified corporation's cumulative cap, for a taxation year, corresponds to the amount by which $250 000 exceeds the total of the qualified corporation's expenditures relating to the supply of a qualified management software package and the shares of such expenditures of a qualified partnership attributed to the qualified corporation in regard to which the qualified corporation received the refundable tax credit relating to the integration of information technologies in manufacturing SMEs for a prior taxation year.

Where, for a taxation year, the qualified corporation can receive this refundable tax credit regarding several qualified IT integration contracts, the total of the amounts each of which represents the expenditures relating to the supply of a qualified management software package, including the share of such expenditures attributed to the qualified corporation by a partnership, in regard to which the qualified corporation receives the refundable tax credit, for the taxation year, may not exceed the balance of its cumulative cap for the taxation year.

In addition, where the qualified corporation is associated with one or more other corporations, in the taxation year, the balance of its cumulative cap on expenses relating to a qualified IT integration contract, for such taxation year, must be determined including the expenses relating to a qualified IT integration contract of the corporations with which it is associated, according to the usual rules.

❑ Rate of the tax credit

The rate of the tax credit of a qualified corporation, for a taxation year, will be 25% where the paid-up capital of the corporation, for such year, does not exceed $15 million. This rate will be reduced linearly and will reach zero where the paid-up capital of the qualified corporation, for such year, is $20 million or more. Accordingly, a qualified corporation whose paid-up capital reaches $20 million or more, for a taxation year, may not receive the tax credit.

In this regard, the paid-up capital of a qualified corporation, for the taxation year, will be determined taking into account the paid-up capital of corporations with which the corporation is associated in such taxation year, according to the usual rules.

❑ Application date

These amendments to the *Taxation Act*[49] will apply to an expenditure relating to the supply of a qualified management software package incurred after the day of publication of this information bulletin, but before January 1, 2018.

❑ Qualified IT integration contract

A corporation or a partnership, as the case may be, must obtain a certificate from Investissement Québec confirming that a contract qualifies as a qualified IT integration contract for the purposes of the refundable tax credit for the integration of information technologies in manufacturing SMEs.

A qualified IT integration contract means a written agreement that satisfies the following conditions.

49 CQLR, chapter I-3.

Assessment

The corporation or partnership, as the case may be, must show that the IT integration contract is related to a preliminary analysis that the corporation or partnership, as the case may be, carried out itself or had carried out on its behalf in order to set out a plan describing its needs in order to gain access to a computer systems infrastructure allowing a management software package to be used to optimize its business processes.

Subcontractor at arm's-length

An IT integration contract must be entered into with a person at arm's length with the corporation or partnership, as the case may be, under which such person undertakes to supply a qualified management software package.

Supply of a qualified management software package

The supply of a qualified management software package means one or more of the following components:

- the acquisition, lease or rights of use of a management software package or an open-source management software package that mainly enables management of one or more of the following:
  - all of the operational processes of a business by integrating all of the functions of the business,
  - the interactions of a business with its customers through multiple interconnected communications channels,
  - a network of businesses involved in the production of a product or service required by the final customer to cover all movements of information, from the source to the point of consumption;
- the delivery of services relating to the development, integration (installation and implementation), reconfiguration and the evolution of a software package described above;
- the delivery of services required to support and train the personnel of the business and resolve bugs in relation to the integration of a software package described above in the business;
- the purchase, lease or rights of use of general-purpose electronic data processing equipment and systems software for that equipment and ancillary data processing equipment, as well as the application software required in the course of the integration of the software package described above in the business.[50]

50 To be included in the supply of a qualified software package, a good must not have been used or acquired or leased to be used or leased in any way whatsoever before being acquired or leased by the corporation or the partnership, as the case may be.

■ Application for certification

The corporation or partnership, as the case may be, must file an application with Investissement Québec for the certification of an IT integration contract before entering into such contract.

Nonetheless, Investissement Québec may agree, for grounds considered reasonable in the circumstances, that a corporation or partnership, as the case may be, submit an application for certification of an IT integration contract after such contract is entered into.

For greater clarity, many IT integration contracts, entered into with one or more different persons, may be related to the same preliminary analysis used to set out a plan describing the needs of a corporation or partnership, as the case may be, so that it may obtain the supply of a qualified management software package to optimize its business processes.

In such a situation, each IT integration contract under which a person undertakes to itself supply a qualified management software package on behalf of the corporation or partnership, as the case may be, must be certified by Investissement Québec.

❑ Application date

These amendments to the *Act respecting the sectoral parameters of certain fiscal measures* will apply to an application for certification submitted to Investissement Québec after the day of publication of this information bulletin, regarding a written agreement relating to an IT integration contract entered into after that day, but before January 1, 2018.

❑ Other details

A qualified corporation must enclose with its tax return, for a taxation year, a copy of the certificate issued by Investissement Québec in relation to each qualified IT integration contract regarding which it seeks to receive this tax credit for such year.

For a qualified corporation to receive this tax credit, the expenses relating to a qualified IT integration contract, as well as the share of expenses of a qualified partnership relating to a qualified IT integration contract referring to this tax credit must have been paid at the time the claim for the tax credit is submitted to Revenu Québec.

Lastly, the *Taxation Act*[51] will be amended to that the person that makes the supply of a qualified management software package may nonetheless receive the refundable tax credit for the development of e-business provided the conditions applicable to this tax credit are otherwise satisfied.

51 Sec. 1029.6.0.1, subpar. *b*.

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

In the 2013-2014 budget speech,[52] a tax holiday for large investment projects, the THI, was implemented.

Briefly, a corporation that carries out, after November 20, 2012, a large investment project in Québec may, under certain conditions, enjoy a tax holiday on the income from its eligible activities relating to the large investment project and a holiday from employer contributions to the Health Services Fund (HSF) regarding the portion of wages paid to its employees attributable to the time they devote to such activities.

Similarly, a partnership that, after November 20, 2012, carries out a large investment project in Québec may, under certain conditions, enjoy a holiday from employer contributions to the HSF regarding the portion of the wages paid to its employees attributable to the time they devote to eligible activities relating to such project. A corporation that is a member of a partnership may enjoy a tax holiday on its share of the income from eligible activities of the partnership relating to such project.

The tax holiday lasts 10 years. The tax holiday begins on the later of the date that eligible activities relating to the investment project begin to be carried out or the date the threshold of $300 million in investment expenditures attributable to carrying out the investment project is reached.[53]

The tax assistance relating to a large investment project may not exceed 15% of the total eligible investment expenditures relating to such project determined on the date the tax holiday begins.

To qualify as a large investment project, an investment project must, in particular, concern activities in the manufacturing, data processing and storage, wholesale trade or warehousing sectors. In addition, the investment project must satisfy a requirement that a minimum investment threshold of $300 million be achieved and maintained.

To benefit from the THI, a corporation must obtain an initial certificate, which must be applied for before the large investment project begins to be carried out and before November 21, 2015, as well as annual certificates issued by the Minister of Finance and the Economy.

To encourage more structuring projects for Québec's economy, the required investment expenditure threshold to enable an investment project to qualify for the THI will be reduced from $300 million to $200 million.

Accordingly, a project may qualify as a large investment project, for the purposes of the THI if the total investment expenditures attributable to carrying out the project in Québec reaches $200 million no later than the end of the 48-month period beginning on the date the initial certificate for the project is issued and if it satisfies all the other eligibility conditions otherwise stipulated.

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52 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, *Budget 2013-2014 - Budget Plan*, November 20, 2012, p. H-23.

53 However, the holiday period relating to a large investment project may not begin after the day that follows the end of the 48-month period starting on the date the initial certificate relating to such project is issued.

This reduction in the investment expenditure threshold will also apply regarding the condition that this threshold be maintained throughout the period of the holiday.

In addition, to determine the date when a corporation or a partnership's holiday begins, in relation to a large investment project, the date that the threshold of $300 million in investment expenditures attributable to the carrying out of the investment project is reached will be replaced with the date that the threshold of $200 million in investment expenditures attributable to carrying out the investment project is reached.

❑ Application date

These amendments to the *Act respecting the sectoral parameters of certain fiscal measures*[54] will apply regarding an investment project that begins to be carried out after the day of publication of this information bulletin and for which an application for an initial certificate has not been submitted before the day of publication of this information bulletin.

These amendments may also apply regarding a large investment project that begins to be carried out after the day of publication of this information bulletin and for which a corporation or a partnership has submitted an application for an initial certificate before the day following the day of publication of this information bulletin. To do so, the corporation or the partnership must so apply in writing to the Minister of Finance and the Economy before November 21, 2015 but no later than the time of submitting its first application for an annual certificate for the investment project.

54 CQLR, chapter P-5.1.