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## Canadian Tax Alert

### Key changes to Quebec tax assistance for IT businesses

#### A second look at the 2015-2016 Quebec budget

April 29, 2015

The information technology (IT) sector is a pillar of the Quebec economy. In the Quebec budget tabled on March 26, 2015, the enhancements made to certain tax measures for the IT sector will further bolster the development of this industry at a time of strong global competition. The improvements will also help to attract foreign direct investment which is strongly dependent on the predictability of the incentives available to the industry.

The key changes are summarized below.

### Development of e-business

**The budget provides for a 6 percentage point non-refundable increase to the tax credit for the development of e-business (TCEB) and sets a \$25,000 cap on tax assistance per job.** With this increase, a company that has sufficient income tax payable could benefit from a TCEB of 30%, i.e., 24% in a refundable tax credit and 6% in a non-refundable tax credit that can be carried backward for three years, subject to certain conditions, or carried forward for 20 years. This new credit applies to wages incurred after March 26, 2015.

**Wages attributable to performing services pursuant to an agreement entered into between an eligible corporation and a Quebec government entity (government departments or agencies listed in the Financial Administration Act) will, going forward, be excluded from an employee's qualified wages for purposes of the TCEB.** This amendment will apply to wages incurred after September 30, 2015 to perform services pursuant to an agreement that is concluded, renewed or extended with a Quebec government entity after that date. Note that this potential reduction in the employee's qualified wages does not disqualify the corporation or its employees from being eligible for the TCEB tax measure. The only impact of this amendment is to reduce the proportion of wages that qualify for the TCEB.

Activities carried out by employees of a corporation eligible for the TCEB will not be considered related to e-business if the results of these activities are to be integrated into property that is intended to be sold or if their ultimate purpose is the operation of such property. **As a result of this amendment, certain corporations may lose eligibility for the credit.** This amendment applies to taxation years starting after March 26, 2015.

**The TCEB end-date, which had originally been set for December 31, 2025, has been removed such that the tax measure will now apply indefinitely.** This announcement was very well received by businesses in the IT sector which can rely on the permanent nature of this credit which is of strategic importance to e-business development in Quebec and for attracting foreign direct investment in that industry.

### **Production of multimedia titles**

Quebec is known for its creativity and its innovation in the multimedia sector and the budget seeks to encourage Quebec multimedia companies to become industry leaders. **To do so, the Quebec government has reestablished the rates which were effective before June 4, 2014 for the multimedia titles production tax credit.** More specifically, the following changes have been made to the tax credit:

- The rate applicable to multimedia titles intended for commercialization other than professional development titles will increase from 24% to 30%, and the French premium for such titles will increase from 6% to 7.5%. The rate applicable to other multimedia titles, including professional training titles, will increase from 21% to 26.25%.
- A cap will be placed on qualifying salary, such that the labour expenditure for a qualified employee cannot exceed \$100,000 annually. Consequently, the maximum amount of the tax credit for a tax year cannot exceed \$37,500, \$30,000 or \$26,250, depending on the circumstances, per qualifying employee, on an annual basis.
- These amendments will apply to a qualified labour expenditure incurred after March 26, 2015 or to a qualified labour expenditure incurred as part of a contract entered into after that date, as the case may be. For a corporation's taxation year that includes March 26, 2015, the \$100,000 limit will be prorated according to the number of days in the taxation year that follow that day.

### **Refundable tax credit for the integration of IT in manufacturing SMEs**

Although this credit is aimed at providing direct support to small and medium enterprises (SMEs) operating in the manufacturing and primary sectors wishing to modernize their business processes by incorporating high added-value software packages, **IT businesses should become familiar with this measure so as to consider the potential financial leverage when presenting business proposals.**

On March 26, 2015, the Quebec government once again allowed certificates of eligibility to be issued to manufacturing SMEs, thereby permitting them to avail themselves of this credit. The principal changes are as follows:

- The duration of the credit will be extended by two years (until December 31, 2019).
- The credit rate will be reduced from 25% to 20%.
- The credit scope will be extended to corporations in the primary sector.

### **Refundable tax credit for the production of multimedia environments or events staged outside Quebec**

The former parameters regarding this refundable tax credit will be restored and the credit rate will be established at 35% (maximum credit of \$350,000).

The tax credit deadline will be cancelled and the program will be continued indefinitely.

These amendments will apply to productions for which an application for an advance ruling or a certificate is submitted to SODEC after March 26, 2015.

### **Refundable SR&ED tax credit**

Significant changes were made to the taxation system in respect of SR&ED credits in the June 4, 2014 Quebec budget and in the Economic Statement released by the Quebec Minister of Finance on December 2, 2014. Please see our publications **2014-2015 Quebec budget tax incentive highlights** and **Information Bulletin 2014-11 tax incentive highlights** for more details. However, no additional significant changes to the SR&ED tax credit were announced in the March 26, 2015 budget. The budget does state, however, that certain measures proposed by the Quebec Taxation Review Committee, and made public on March 19, 2015, will not be implemented by the government. **In particular, the government will not be eliminating the refundability of various Quebec tax credits.**

### **Other non-tax measures**

#### ***\$15 million investment for Quebec intellectual property development in the video game industry***

Through the Economic Development Fund (EDF), the government will invest \$15 million in video game projects destined for export. The investment will be made in businesses whose head office or primary business office is based in Quebec and whose intellectual property is mainly controlled by the Quebec business. The investment parameters will soon be announced by Investissement Québec and Quebec's Minister of the Economy, Innovation and Exports.

#### ***\$15 million investment to create a venture capital fund in Quebec***

To ensure adequate financing for Quebec technology businesses in the seed and start-up phases, the budget provides up to \$15 million to be invested in a venture capital fund with a targeted size of \$30 million. As the Quebec government agent, Investissement Québec will be in charge of rolling out this new fund.

### **Can we be of assistance?**

The number and scope of these measures reflect the importance of the IT and multimedia sectors to Quebec's economy. Your particular situation should be analyzed to determine the impact of these recent developments. If you would like to discuss any of these measures and how they might benefit your business, please contact your Deloitte representative or any of the Quebec Tax and Government Incentives experts listed on this alert.

*Albert De Luca, National Leader, Global Research and Development and Government Incentives*

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