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Contacts

National Leader
Albert De Luca
514-393-5322

Global Leader
Natan Aronshtam
416-643-8701

Atlantic
Steven Carr
902-721-5565

Quebec
Martin Vézina
514-393-7139

Louis Boivin
418-696-3951

Élaine-Nathalie Lamontagne
450-618-8112

Julien Lassonde
418-624-5331

Ontario
Brian Harrigan
613-751-5421

Len Lucier
905-315-6730

Cheryl Manuel
519-650-7715

Toronto
Anil Chawla
416-643-8006

Prairies
Ryan Dumonceaux
306-343-4348

Alberta
David Arthur
403-261-8176

British Columbia
Scott Robertson
604-640-3184

Joanne Hausch
604-640-3306

Langley
Peggy Aulenback
604-539-3658

R&D tax update

Information Bulletin 2014-11

Tax incentive highlights

December 15, 2014 (14-6)

On December 2, the Minister of Finance, Carlos J. Leitão, tabled the **Update on Quebec's Economic and Financial Situation** and **Information Bulletin 2014-11,** which reviews the implementation of the 2014-2015 budget tabled last June. The Minister announced that the government is on target to meet the budget objectives of reducing the 2014-2015 deficit to $2,350 million, achieving fiscal balance in 2015-2016 and maintaining fiscal balance thereafter.

The Information Bulletin also described changes to refundable credit programs for research and development (R&D) as well as the tax credit for investments relating to manufacturing and processing equipment. Other programs, such as the tax credit for the development of e-business (CDAE) and the tax credit for the production of multimedia titles, have not been changed.

Tax measures relating to refundable tax credits for R&D

- **Standardization of the rate of refundable tax credits for R&D:** The 28% rate applicable to refundable R&D tax credits for university R&D, precompetitive research carried out in a private partnership and contributions paid to an eligible research consortium will be changed to reflect the R&D tax credit rates on researchers' salaries, which range from 14% to 30% based on the corporation's assets and its controlling entity. Transitional rules have been provided to enable companies to adjust to the new rates when entering into university or precompetitive research agreements. Generally, this change will apply to R&D expenditures incurred and contributions paid to an eligible research consortium after December 2, 2014.
- **Introduction of an exclusion threshold:** An exclusion threshold has been introduced to exclude the first dollars spent annually by a corporation from expenditures eligible for R&D tax credits. The exclusion threshold is $50,000 annually for corporations with less than $50 million in assets and rises to $225,000 for corporations with over $75 million in assets. This change will apply to taxation years beginning after December 2, 2014.

Related links

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Tax measures related to investment tax credits for manufacturing and processing equipment (ITC)

- **Introduction of an exclusion threshold:** For each ITC-eligible property, only costs exceeding $12,500 now qualify for the credit. For example, a corporation that acquires a property for $100,000 may only claim a credit on the amount of $87,500. Moreover, the credit can no longer be claimed on any property that costs less than $12,500.
- This change applies to qualified property acquired after December 2, 2014, unless it was acquired in accordance with a written obligation entered into no later than December 2, 2014 or its construction was already under way at that time. The tax credit rates (which range from 4% to 32% depending on the region in which the property is used and the size of the corporation) remain unchanged.

Increase in the additional deduction for transportation costs of remote manufacturing small and medium-sized enterprises (SMEs)

On June 4, 2014, the Minister of Finance introduced an additional deduction for transportation costs in calculating the net income of remote manufacturing SMEs. This measure, which applies to corporations whose consolidated paid-up capital is less than $15 million, will be increased by 1% as of taxation years beginning after December 31, 2014. The deduction rate will rise to 3% for the intermediate zone, 5% for the remote zone and 7% for the special remote zone. For the same taxation years, the deduction will also be available at the rate of 1% for regions that were originally excluded, i.e. Gatineau and the Montreal and Quebec City census metropolitan areas.

Reduction of the Health Services Fund (HSF) contribution rate for SMEs in the primary and manufacturing sectors

Starting in 2015, SMEs in the primary and manufacturing sectors whose payroll is less than $5 million will see a reduction in their HSF contribution rate. The amount of the reduction will depend on the employer's total payroll. For example, the rate will fall to 1.6% for employers whose contribution rate is currently set at 2.7% (payroll of less than $1 million) and from 3.48% to 2.93% for employers with a payroll of $3 million, while the contribution rate of employers with a payroll of $5 million will remain unchanged at 4.26%.

To qualify for this reduction, an employer must show that 50% of its payroll for the year is attributable to the agriculture, forestry, fishing and hunting, mining, quarrying or oil and gas extraction sectors, or the manufacturing sector.

For more information, please see the budget documents on the **Ministère des Finances du Québec**'s website**.**

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

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2 Queen Street East, Suite 1200
Toronto (Ontario) M5C 3G7 Canada