



Global Investment and Innovation Incentives (Gi^3)

2021-2022 Quebec budget highlights

March 29, 2021

Finance Minister, **Éric Girard**, tabled the 2021-2022 Quebec budget entitled "Quebec is resilient and confident" on March 25, 2021.

This budget focusses on strengthening the health care system, providing assistance to the education sector and, on the economic front, it seeks the return to full employment, and accelerating growth and the transition to the new economy. In terms of the latter, this budget includes incentive tax measures aimed at increasing productivity and stimulating business investment.

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INCENTIVE TAX MEASURES FOR BUSINESSES

Temporary increase in the tax credit relating to investment and innovation

As a reminder, the tax credit relating to investment and innovation (C3i) is granted to a qualified corporation that acquires, after March 10, 2020, and before January 1, 2025, manufacturing or processing equipment, general-purpose electronic data processing equipment or certain management software packages.

This tax credit may be refundable, in whole or in part, or non-refundable depending on the size of the corporation, but the specified expenses in respect of which the tax credit is claimed may not exceed a cumulative limit of \$100 million.

The tax credit rate in respect of a specified property varies according to the economic vitality of the zone where it will be used and is equal to the following:

- 20%, if the property is acquired to be used mainly in the low economic vitality zone;
- 15%, if the property is acquired to be used mainly in the intermediate zone; and
- 10%, if the property is acquired to be used mainly in the high economic vitality zone.

The tax credit is temporarily increased in order to encourage businesses to carry out their investment projects and thus contribute to accelerate Quebec's economic recovery.

The tax credit rates are therefore doubled in respect of specified expenses incurred after March 25, 2021, but before January 1, 2023.

During this period, the rates of the tax credit relating to investment and innovation will be equal to:

- 40%, if the property is acquired to be used mainly in the low economic vitality zone;
- 30%, if the property is acquired to be used mainly in the intermediate zone; and
- 20%, if the property acquired is to be used mainly in the high economic vitality zone.

Changes to the tax holiday for large investment projects

Essentially, a corporation that carries out a large investment project in Quebec may benefit from a tax holiday in respect of the income from its eligible activities relating to the project and a holiday from employer contribution to the Health Services Fund (HSF) regarding the portion of wages paid to its employees that is attributable to the time they devote to such activities.

This tax holiday may not exceed 15% of the total qualified capital investments relating to the project, as determined on the date of the beginning of the 15-year period during which a corporation may benefit from the tax holiday.

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To qualify as a large investment project, a project must pertain to activities in one of the following sectors: manufacturing, wholesale trade, warehousing and storage, data processing, hosting and related services or development of digital platforms.

Three changes are made to this tax holiday in order to better support Quebec businesses in carrying out their investment project.

Temporary extension of the start-up period for certain investment projects

In order to benefit from the tax holiday, a corporation must, among other things, within the 60-month start-up period, starting on the date the initial qualification certificate is issued for the investment project, have incurred capital expenditure attributable to the carrying out of the project at a minimum amount corresponding to the capital investment threshold of \$100 million or \$50 million, as the case may be, applicable to the project.

The start-up period is extended for 12 months in respect of an investment project for which an application for an initial qualification certificate has been made to the Minister of Finance before March 25, 2021.

Addition of a choice relating to the date of the beginning of the tax-free period

The tax-free period for a large investment project begins on the later of the following dates:

- the date on which the total capital investments attributable to the carrying out of the project is reached;
- the date on which the activities arising from the carrying out of the project begin, or the date on which at least 90% of the goods intended to be used in the course of such activities are ready to be used where such activities gradually begin.

The tax holiday is modified to allow a corporation to choose the date of the beginning of this tax-free period. The selected date must be included in the period starting on the day on which the total capital investments attributable to the carrying out of the project first reach the capital investment threshold applicable to the project and ending on the last day of the 60-month start-up period, or 72 months for projects affected by the above-mentioned change.

This change applies to investment projects for which the tax-free period has not yet started.

Broadening the eligible sectors of activity

The tax holiday is modified to add investment projects involving any activity sector where the investment project aims to modernize a business of the corporation through digital transformation. Such a project refers to an investment project aimed at developing and implementing a digital solution by integrating or upgrading an information system or technology infrastructure, resulting in organizational and operational changes within the business.

In this respect, the digital solution must focus on value creation for all or part of the business of the corporation. In addition, the primary objective of the investment project must be one or more of the following objectives:

- optimize the management and analysis of the corporation's data and the use of its resources;
- increase the corporation's productivity or efficiency by process automation;
- improve relationships with suppliers or customers by processing information collected about them in real time.

The capital investments attributable to carrying out a project to modernize a business through digital transformation correspond to the capital expenditures incurred to acquire digital equipment, software and other components of the technology infrastructure or the information system, as well as the expenses incurred to adapt the corporation's equipment in connection with the implementation of the digital solution.

However, an investment project that consists of an asset maintenance plan or is part of the corporation's normal course of business cannot qualify as a project to modernize a business through digital transformation.

This change applies to investment projects that begin to be carried out after March 25, 2021.

Temporary enhancement of the refundable tax credit for on-the-job training periods

The basic rate of the refundable tax credit for on-the-job training periods is 24% where the taxpayer is a corporation and 12% where the taxpayer is an individual. These two rates increase to 32% and 16%, respectively, where the eligible trainee is a disabled person, an immigrant or an Aboriginal person, or where the training takes place in an establishment of the taxpayer located in an eligible region.

These rates may also be increased in the case of eligible trainees enrolled in an education program or a prescribed program.

The tax credit rates, other than the enhanced rates applicable to eligible trainees enrolled in an education program or a prescribed program, are increased by 25%.

Thus, the basic rates of 24% and 12% are increased to 30% and 15% respectively, while the enhanced rates of 32% and 16% are increased to 40% and 20% respectively.

These rate increases apply to qualified expenditures incurred after March 25, 2021, and before May 1, 2022, in respect of a qualified training period beginning after March 25, 2021.

Elimination of the requirement to obtain an advance ruling for R&D tax credits

Among the various refundable tax credits for scientific research and experimental development (R&D), a taxpayer can benefit from the tax credit commonly known as the "R&D university tax credit".

This tax credit provides enhanced tax assistance but requires an advance ruling from Revenu Québec.

This requirement is eliminated and replaced by changes to the information collected by Revenu Québec to verify the conditions of application of the R&D university tax credit.

These changes apply as of March 26, 2021.

OTHER MEASURES

Further extension of the credit on the employer contribution to the HSF in respect of employees on paid leave

The credit on the employer contribution to the HSF is granted for the same qualifying periods as the Canada Emergency Wage Subsidy (CEWS).

As a result of the federal government's announcement that it proposes to maintain the reimbursement of employer contributions to employment insurance, the Canada Pension Plan, the Québec Pension Plan and the Québec Parental Insurance Plan with respect to employees on paid leave for employers qualifying for the CEWS until June 5, 2021, the credit on the employer contribution to the HSF will also be extended until that date.

Support for the rollout of Quebec's first green hydrogen and bioenergy strategy

As its contribution to implementing a first green hydrogen and bioenergy strategy in the fall of 2021 to guide government action in the use and production of these future energy sources to replace fossil fuels, and accelerating the development of Quebec's green hydrogen sector, the government is providing \$20 million in 2021-2022 for the first initiatives to lay the groundwork for this development.

Support for the development of the forest sector

The harvesting and processing of forest resources are one of the main drivers of the economy in Quebec's regions. Budget 2021-2022 provides \$92.8 million to support the development of the forest sector by:

- supporting the construction of multi-use roads in public forests;
- protecting the production of forest seeds and seedlings;
- encouraging the forest industry to become more competitive by using LiDAR data;
- supporting the development and dissemination of tools and training on wood construction;
- continuing to develop a sector that exports wood construction systems;
- supporting efforts to combat the spruce budworm;
- simplifying the property tax refund for forest producers.

Encouraging innovation in the forest industry

In order to encourage innovation in the forest industry, helping forest businesses and business combinations innovate and develop new processes and products, the government is providing \$15 million over two years. This support for innovation will allow the forest industry to develop new markets and position itself advantageously.

Extension and enhancement of the Quebec Cybersecurity Innovation Program

An amount of \$27.5 million will be awarded to Prompt-Québec in 2020-2021 to extend and enhance the support provided to projects submitted as part of the Quebec Cybersecurity Innovation Program.

Maintaining the Concerted Temporary Action Program for Businesses and the Emergency Assistance Program for Small and Medium-Sized Businesses

The Concerted Temporary Action Program for Businesses (PACTE) and the Emergency Assistance Program for Small and Medium-Sized Businesses (PAUPME) were launched at the beginning of the pandemic to support businesses affected by the repercussions of COVID-19.

The government plans to increase the amounts available for both programs by introducing additional funding of \$200 million for the PACTE and \$100 million for the PAUPME in 2021-2022.

How can Deloitte help?

If you have questions, please contact your Deloitte representative or any of the individuals noted in this document.

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