



## Global Investment and Innovation Incentives ( $Gi^3$ )

### 2020-2021 Quebec budget highlights

March 16, 2020

On March 10, 2020, Finance Minister Éric Girard tabled the 2020-2021 Quebec budget, entitled "Your future, your budget".

This budget contains several tax incentives designed to further encourage Quebec businesses to be more innovative and productive.

#### **INCENTIVE TAX MEASURES FOR BUSINESSES**

##### **Introduction of an investment and innovation tax credit (C3i)**

C3i is a new tax credit that replaces the current investment tax credit, but it is based on more advantageous criteria.

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In essence, the C3i tax credit will benefit companies that acquire manufacturing or processing equipment, computer equipment or certain enterprise software packages after March 10, 2020, and before 2025.

This tax credit will be calculated on the portion of the expenses incurred to acquire a property in excess of \$5,000 or \$12,500, depending on the property. The applicable rate, which can reach 20%, will be determined based on the economic vitality index of the region where the property will mainly be used. More specifically, the applicable rate will be either 20%, 15% or 10%, depending on whether the property is acquired to mainly be used in one of three zones designated by the government as being either a low economic vitality zone, an intermediate economic vitality zone or a high economic vitality zone. The Montreal metropolitan community and the Quebec metropolitan community, for example, are located in high economic vitality zones.

The C3i will be applied as a reduction to a company's total taxes in a taxation year. Total taxes will consist of income tax, compensation tax on financial institutions, tax on capital of insurance corporations and tax on capital of life insurers.

The C3i to which a qualified corporation is entitled for a taxation year may be refundable, in whole or in part, or non-refundable. The non-refundable portion of the tax credit in one taxation year may be carried forward to a subsequent taxation year. The refundable portion of the tax credit will be determined based on the company's assets and gross income.

For example, a company with assets or gross income, whichever is higher, of less than \$50 million will be entitled to a refundable tax credit. The tax credit will be partly refundable when a company's assets or gross income (whichever is higher) are between \$50 million and \$100 million, and the credit will be non-refundable when a company's assets or gross income (whichever is higher) exceeds \$100 million.

However, the amount of expenditures that a company may claim will be capped at a cumulative limit of \$100 million.

### **Extension of the deadline to apply for initial certification for the tax holiday for large investment projects**

To claim this tax holiday, a company must obtain an initial eligibility certificate as well as annual certificates issued by the Minister of Finance. Currently, an application for an initial certificate must be submitted before the investment project begins and before December 31, 2020. This December 31, 2020 deadline has been extended to December 31, 2024.

### **Introduction of an incentive deduction for the commercialization of innovations in Quebec (IDCI) and abolition of the deduction for innovative manufacturing corporations (DIC)**

With the introduction of the IDCI, companies that commercialize a qualified intellectual property asset developed in Quebec will benefit from a 2% effective tax rate on the qualified portion of taxable income attributable to that qualified intellectual property asset. Currently, the basic corporate income tax rate is 11.5% in Quebec.

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This new deduction will apply in respect of a corporate taxation year beginning after December 31, 2020. The current deduction for innovative manufacturing corporations will be abolished for taxation years beginning after December 31, 2020.

A qualified intellectual property asset will consist of patents and certificates of supplementary protection, plant breeders' rights or software copyrights. In addition, to qualify as an eligible intellectual property asset, the property must be the result of research and development (R&D) activities carried out in whole or in part in Quebec. Further guidance will be provided to clarify the application rules.

### **Elimination of the expenditure exclusion threshold for certain scientific research and experimental development income tax credits**

In essence, under an expenditure exclusion threshold, no R&D tax credits are granted for a taxpayer's otherwise eligible R&D expenditures that are below a threshold applicable to the taxpayer for a taxation year. This threshold begins at \$50,000 and increases linearly to \$225,000 where the taxpayer's assets range between \$50 million and \$75 million.

This exclusion threshold will be eliminated for eligible expenditures relating to a university research contract, an eligible research contract entered into with an eligible public research centre, a pre-competitive research project carried out in private partnership, or fees or dues paid to an eligible research consortium.

This amendment will apply to the expenditures incurred by a taxpayer for taxation years beginning after March 10, 2020, with respect to R&D work carried out after that date.

The exclusion threshold will be maintained for the "R&D salary" tax credit.

### **Introduction of the synergy capital tax credit**

Essentially, the synergy capital tax credit will be granted to a company, other than a financial institution, a real estate company or a company primarily engaged in granting loans or making investments, that acquires shares of the capital stock of a qualified corporation operating in the life sciences, manufacturing or processing, green technologies, artificial intelligence or information technology sector. It will be equivalent to 30% of the value of the investment by the company in eligible shares. The subscribed shares will have to be retained by the company for a minimum of five years.

The tax credit will be non-refundable and can reach up to \$225,000 annually.

A company seeking to issue shares of its capital stock and allow another company to claim the tax credit will be required to meet certain conditions relating to size, business sector and scale of operations in Quebec. It will also have to obtain an authorized placement certificate from Investissement Québec. In so doing, it will be able to issue shares of its capital stock, for the purposes of the tax credit, in the amount for which the certificate was issued. The funds obtained from the issuances of such shares must be used by the company to make investments related to business operations.

A company is eligible to issue shares of its capital stock for the purposes of this tax credit if it is a Canadian-controlled private corporation that conducts business in

Quebec and has an establishment in Quebec with paid up capital below \$15 million. The company's activities in Quebec must represent more than 75% of all of its activities. Furthermore, the company's gross income, for its most recent fiscal period ended before the day on which the application for the authorized placement certificate is filed with Investissement Québec, must be less than \$10 million.

Activities eligible for this tax credit include research, development, production and marketing of medication for human or animal health; creation, development, manufacturing and commercialization of physical or digital medical products, other than medication; research, development, production and marketing of natural health products; manufacturing or transformation; and artificial intelligence, i.e., design and development of artificial intelligence solutions.

### **Introduction of a refundable tax credit for SMEs for persons with a severely limited capacity for employment**

To further support small and medium enterprises (SMEs) and promote the hiring and retention of workers with a severely limited capacity for employment, this refundable tax credit has been introduced.

A company will be eligible for this credit if it operates a business in Quebec, has an establishment in Quebec with paid-up capital below \$15 million and, except where the company is a primary and manufacturing sector corporation, has in excess of 5,000 total remunerated hours for the year.

This tax credit will apply to taxation years ending after December 31, 2019, and will cover employer contributions that are amounts paid under the *Act respecting parental insurance*; the *Act respecting labour standards*; the *Act respecting the Régie de l'assurance maladie du Québec*; the *Act respecting the Québec Pension Plan*, and the *Act respecting industrial accidents and occupational diseases*.

### **Change to the notion of interactivity for the purposes of the refundable tax credits for the production of multimedia titles**

A multimedia title is eligible for the two multimedia production tax credits if it contains a substantial volume of three of the following four types of information in digital form: text, sound, still images and animated images. It must also be published on an electronic medium and controlled by software allowing interactivity.

A multimedia title may have different levels of interactivity. As such, clarification will be made such that a title can be considered controlled by interactivity-enabling software only if the conditions applicable to the user's participation in the action of the title are met for all or most of this action.

This amendment will apply to certificate applications filed with Investissement Québec after March 10, 2020, for taxation years beginning after that day.

### **Change in activities eligible for the tax credits for the development of e-business (TCEB)**

To refocus the TCEB on high value-added activities in the information technology sector, activities eligible for the TCEB are now more limited. As such, an activity involving the design or development of e-commerce solutions allowing a monetary transaction between the person on behalf of whom the design or development is

carried out and that person's customers will no longer be an eligible activity for the TCEB.

However, such an activity involving the design or development of e-commerce solutions may be an eligible activity if it is incidental to an eligible activity related to the development or integration of information systems or of technology infrastructures.

This change will apply to a company's taxation year beginning after March 10, 2020.

### **Elimination of the refundable tax credit for the integration of information technologies**

This tax credit is being eliminated as of the budget date. As such, Investissement Québec will no longer accept applications to issue an IT integration contract certificate for the purposes of this tax credit if the application is submitted after March 10, 2020.

However, there is an exception. Investissement Québec can accept applications to issue an IT integration contract certificate after March 10, 2020, if the application meets certain conditions whereby sufficient effort has already been made and the eligibility certification application with respect to the IT integration contract to be entered into is submitted to Investissement Québec before July 1, 2020.

### **Enhancement to the refundable tax credits for the production of performances and the production of sound recordings**

An enhancement was made to each of these tax credits whereby the eligible labour expenditure ceiling is raised to 65% of production costs.

### **Changes to the refundable tax credit applicable to Quebec film or television production**

Essentially, this tax credit has been made more flexible to adapt to the reality of the online broadcasting market. In addition, financial assistance amounts have been added to the list of amounts not considered to be government assistance that reduce this tax credit.

## **OTHER INCENTIVE MEASURES FOR BUSINESSES**

### **Enhancing research accessibility and commercialization**

To enhance research accessibility and commercialization, the government has earmarked \$100 million to implement a new pre-seeding investment fund for commercializing innovations stemming from public research.

### **Supporting the development of green industrial sectors**

To support the fight against climate change, the government is providing \$59 million over five years, as follows:

- \$14 million to continue developing the hydrogen industry, which will contribute, in particular, to the funding of demonstration projects for hydrogen production and use;

- \$27 million to support innovative product research, innovation and commercialization in the electric vehicle industry;
- \$18 million to support the development of an industrial sector specializing in battery recycling, in particular by funding demonstration projects of new processes in Quebec.

### **Enhancing the Innovation Program**

The Innovation Program is an important government tool, providing direct funding for businesses. In particular, the Innovation Program supports businesses and business groups throughout the various phases of their innovation projects. In order to support more innovative business projects, the government is providing \$10 million to enhance the support for innovation projects component of the Innovation Program.

### **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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