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R&D tax update 2014-2015 Quebec budget Tax incentive highlights

June 4, 2014

Minister of Finance Carlos J. Leitão today tabled the **2014-2015 Quebec budget** which is intended to promote economic recovery. According to the Minister, the public finance problems stem from spending that is structurally higher than revenue. In short, the budget proposes, applicable as of June 5, 2014, a 20% reduction to many tax credits for Quebec companies, including the R&D tax credit, the tax credit for the development of e-business (TCEB) and the tax credit for the production of multimedia titles. Needless to say, this proposed reduction in tax assistance will affect all industry sectors in Quebec since it applies to all Quebec companies, regardless of size. Certain companies, such as those in the information technology (IT) sector, will be more affected as they often make use of more than one of the noted credits.

Summary of main reductions in tax credit rates

Category	Rates before/after the reduction	Maximum eligible as of the budget date
Multimedia titles with French-language premium	37.5%/30%	N/A
Other multimedia title including an occupational training title	26.25%/21%	N/A
TCEB	30%/24% of eligible salary	\$20,000
IT integration – manufacturing small and medium enterprises (SMEs)	25%/eliminated	Before budget: \$62,500 After budget: \$0
R&D salary credit	17.5%/14%	N/A
	37.5%/30%	
R&D credit – partnerships	35%/28%	N/A

The following is a non-exhaustive summary of the main tax measures proposed by the 2014-2015 budget. Should you require additional information, do not hesitate to contact us.

Measures concerning tax incentives for business

- Manufacturing SMEs may claim an **additional tax rate reduction** on the first \$500,000 of annual income. The maximum additional reduction a corporation may claim will be 2% as of June 5, 2014, increasing to 4% as of April 1, 2015. The additional rate reduction will be applied on a straight-line basis based on the percentage of manufacturing and processing activities.

- Remote manufacturing SMEs may claim an **additional deduction** of up to 6% of gross income in calculating their net income, to reflect higher **transportation costs** due to the remoteness of certain regions. This additional deduction will apply to a taxation year ending after June 4, 2014.
- A reduction of the **Health Services Fund contribution** will be granted until 2020, to eligible employers with payrolls under \$5 million, for full-time jobs created in the natural and applied sciences sector.
- The **definition of base salary** for purposes of certain **source deductions** has been amended to include any amount paid, allocated, granted or awarded to an employee because of, or in the course of, his/her office or employment by a person who does not deal at arm's length with a particular employer.
- The rate of the **R&D salary tax credit** is reduced to 14% and, in the case of a Canadian-controlled corporation that may benefit from a rate ranging from 17.5% to 37.5% depending on the amount of its assets, this rate will be reduced to a rate ranging from 14% to 30%. This amendment will apply to R&D expenditures incurred after June 4, 2014.
- The rate of the **R&D university tax credit**, the **tax credit concerning precompetitive research carried out in private partnership** and the **tax credit concerning contributions paid to an eligible research consortium** is reduced to 28%. This amendment will apply regarding R&D expenditures incurred under a research contract entered into after June 3, 2014.
- The **increase in the rate of the refundable tax credit for R&D salary in relation to biopharmaceutical activities** will be eliminated as of June 4, 2014 and, accordingly, Investissement Québec (IQ) will not accept applications for an initial certificate submitted as of that day. In addition, IQ will no longer issue an annual certificate for a taxation year of a corporation beginning after June 4, 2014. However, a corporation previously recognized by IQ as an eligible biopharmaceutical corporation may continue to benefit from the increase in the rate of this refundable tax credit for its taxation year that includes June 4, 2014, but the increase will be reduced by 20% and the rate therefore reduced to 22%. In the case of a Canadian-controlled corporation, the increase in the rate of this tax credit will vary from 22% to 30%. This change will apply to expenditures incurred after June 4, 2014 or to expenditures incurred as part of a research contract entered into after June 3, 2014.
- The rate of the **refundable tax credit for the development of e-business** will be reduced from 30% to 24%. This amendment will apply to salaries incurred for an eligible employee after June 4, 2014. In addition, the annual cap of \$20,000 per employee will be maintained and not be raised, as previously announced, to \$22,500 as of January 1, 2016.
- Three changes will be made to the **tax credit for investments relating to manufacturing and processing equipment**:
 - The additional increase of ten percentage points in the rate of the tax credit that applies regarding eligible expenses incurred by manufacturing SMEs will be eliminated.
 - The rise of five percentage points of the increase in the rate of the tax credit for investments granted to a qualified corporation that does not receive the tax credit for job creation regarding qualified property acquired for use mainly in the eastern part of the Bas-Saint-Laurent administrative region or in an intermediate zone will also be eliminated.

- The base rate and the increases in the rate of the tax credit for investments will be reduced by 20%, and therefore, the base rate of the tax credit for investments will be reduced to 4%. The increased rate may reach 32% where a qualified property is acquired for use mainly in a remote zone, and 24% where a qualified property is acquired for use mainly in the eastern part of the Bas-Saint-Laurent administrative region and 16% where a qualified property is acquired for use mainly in an intermediate zone. In all other cases, the increased rate may reach 8%.
 - These changes to the tax credit for investments will apply regarding eligible expenses incurred after June 4, 2014. However, transitional measures will apply to eligible expenses incurred after June 4, 2014, but before July 1, 2015.
- The **refundable tax credit relating to buildings used in the course of manufacturing or processing activities by a Quebec SME** will be eliminated as of June 5, 2014. Accordingly, expenditures relating to a building incurred after June 4, 2014 will not give rise to the tax credit for buildings. However, transitional measures will be introduced regarding expenses incurred after June 4, 2014 but before July 1, 2015.
- As part of the review of preferential measures for businesses, the **refundable tax credit for the integration of information technologies in manufacturing SMEs** will be reviewed such that IQ will not issue the certificates needed to receive such credit and will not accept applications for an IT integration contract certificate submitted as of June 4, 2014 and for the entire period of the review of this fiscal measure.
- The rate of the **tax credit for job creation for processing activities in the resource regions** will be reduced to 9% for calendar year 2014 and to 8% for calendar year 2015.
- The rate of the **tax credit for job creation in the Vallée de l'aluminium, the tax credit for job creation in Gaspésie and certain maritime regions of Québec, the refundable tax credit for Gaspésie and certain maritime regions of Québec in the fields of marine biotechnology, mariculture and marine products processing** will be reduced to 18% for calendar year 2014 and to 16% for calendar year 2015.
- The rate of the **refundable tax credit to foster the modernization of the tourism accommodation offering** will be reduced to 20% and the annual threshold of \$50,000 of eligible expenditures will be replaced with a single threshold of \$50,000. Transitional measures will be introduced regarding these changes.
- The following measures will be affected by the 20% **tax assistance reduction** and transitional provisions will be introduced to bring the amendments into force:
 - the refundable tax credit for on-the-job training periods;
 - the refundable tax credit for technological adaptation services;
 - the refundable tax credit for design;
 - the refundable tax credit for manpower training in the manufacturing, forest and mining sectors;
 - the refundable tax credit for resources;
 - the refundable tax credit for major employment generating projects;
 - the refundable tax credit for the production of multimedia titles;
 - the tax benefits relating to flow-through shares;

- the refundable tax credit for international financial centres;
 - the refundable tax credit relating to a new financial services corporation;
 - the refundable tax credit for the hiring of employees by a new financial services corporation;
 - the refundable tax credit pertaining to the diversification of markets of Quebec manufacturing companies;
 - the refundable tax credit for Quebec film and television production;
 - the refundable tax credit for film production services
 - the refundable tax credit for film dubbing;
 - the refundable tax credit for sound recording production;
 - the refundable tax credit for the production of shows;
 - the refundable tax credit for book publishing;
 - the tax credit for the production of multimedia environments or events staged outside Quebec.
- The tax legislation will be amended to enable a **Quebec shipowner** to create a **tax-free reserve** to award the execution of construction, renovation and maintenance work on vessels of the shipowner's fleet to a Quebec shipyard. These amendments will apply to a tax-free reserve created after June 4, 2014 under a certificate issued by the Ministère de l'Économie, de l'Innovation et des Exportations after that date.
 - The legislation will be amended so that a Quebec shipowner may claim an additional capital cost allowance of 50% where the shipowner has a Canadian vessel built or has renovation work done on it by a Quebec shipyard. This amendment will apply to the cost of work done pursuant to a contract entered into after June 4, 2014 but before January 1, 2024.

For further details, we refer you to the [Quebec Ministry of Finance and the Economy website](#).

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