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R&D Tax Update

Quebec 2013-2014 budget: Important changes to the province’s investment incentives

November 30, 2012 (12-6)

On November 20, 2012, the Quebec government tabled its budget for 2013–2014. The budget includes a number of changes to investment incentives in Quebec, including amendments to refundable tax credits, an extension of the manufacturing and processing tax credit and the introduction of a new tax holiday for large investments.

Refundable tax credits

The budget includes two significant changes to refundable tax credits. First, refundable tax credits received after November 20, 2012 and that relate to expenditures incurred by the taxpayer for a taxation year starting after that day will be required to be included in income. The tax legislation will be amended so that these refundable tax credits will no longer be deemed not to be an amount of government assistance. It will therefore be important for companies to maintain documentation of qualified expenditures made before and after November 20, 2012.

Second, the refundable tax credit for R&D salaries will be increased temporarily from 17.5% to 27.5% on eligible R&D expenditures for qualifying biopharmaceutical corporations. In order to be eligible for this higher rate, the corporation will be required to obtain an initial certificate and an eligibility certificate for each taxation year from Investissement Québec. In most cases, the increased rate will apply to eligible R&D expenditures incurred after November 20, 2012 and before January 1, 2018. However, R&D expenditures incurred after November 20, 2012 under a research contract entered into before that day will also be eligible for the higher tax rate. For an eligible biopharmaceutical corporation that qualifies as a small or medium enterprise, the credit rate will remain unchanged on the first $3 million of eligible expenses and where assets calculated according to the applicable rules will be under $50 million. For companies whose assets range from $50 million to $75 million, the credit will be reduced linearly from 37.5% to 27.5%. Here again, it will be important for biopharmaceutical corporations to maintain documentation of qualified expenditures made before and after November 20, 2012.

Manufacturing and processing tax credit

The eligibility period for the tax credit for manufacturing and processing investments will be extended to property acquired before January 1, 2018 rather than the previously announced January 1, 2016. In addition, the applicable tax credit rate for qualified property acquired after November 20, 2012 and to be used mainly in the eastern part of the Bas-

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Saint-Laurent administrative region or in an intermediate zone will be increased by 5% (to 35% in the Bas-Saint-Laurent and 25% in intermediate zones). However, a corporation will not be eligible for this increase in the tax credit for investments if that corporation, or a corporation with which it is associated during a given taxation year, receives a job creation credit for a calendar year ending in that taxation year.

New tax holiday for large investment projects

To replace the tax holiday for a major investment project that was eliminated in this budget, a new tax holiday for large investment projects ("THI") will be introduced for activities in the manufacturing, data processing and storage, wholesale trade and warehousing sectors. A corporation that begins and carries out a large investment project in Quebec after November 20, 2012 may benefit from a tax holiday on the income from its eligible activities (rather than being subject to corporate tax at the rate of 11.9%), and on employer contributions to the Health Services Fund (at 4.26%) relating the portion of wages paid to its employees that is attributable to the time they spend on such activities. An eligible investment project must achieve and maintain a minimum investment threshold of $300 million, and the initial certificate application must be submitted to the Ministère des Finances et de l'Économie before November 21, 2015. This tax holiday will last for ten years and may not exceed 15% of the total eligible investment expenditures relating to such project.

Navigating the changes

Your Deloitte advisor or any of the professionals noted on this newsletter can assist you in understanding Quebec's budget changes to investment incentives and in identifying opportunities to take advantage of these changes.

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