



Global Investment and Innovation Incentives tax update

Temporary increase in the Quebec ITC for manufacturing and processing equipment

August 22, 2018

On August 15, 2018, the Government of Quebec announced, in Information Bulletin 2018-7, a plan to support Quebec businesses in response to the US government's imposition of tariffs targeting the Canadian manufacturing sector. These new measures by the Ministère des Finances du Québec include a temporary increase to the investment tax credit (ITC) for manufacturing and processing equipment.

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The ITC, in effect since 2008, is essentially intended to enhance business productivity and is equal to a percentage of the purchase cost of equipment used in manufacturing and processing activities. The percentage applied and the eligibility of the property varies according to the region in which the property is used and the size of the company. The credit is refundable for companies whose consolidated global paid-up capital (PUC) is not greater than \$250 million, and is non-refundable for those whose PUC is \$500 million or over (it is partially refundable for companies with PUC of between \$250 million and \$500 million).

The ITC increase announced on August 15 has three components and will apply to expenses incurred to purchase property between August 16, 2018 and December 31, 2019, inclusively. However, to take advantage of the increase, the property must not have been acquired under an obligation contracted before August 16, 2018, and construction of the property must not have begun before this date.

The first component of the increase requalifies property purchased for use **outside resource regions**, property that has not been eligible for the ITC since December 31, 2016.

The second component raises the rate of the credit, essentially bringing it back to **the same level as before June 4, 2014**.

As was previously the case, the ITC rate applicable to a company with PUC of \$500 million or more will be reduced. However, it will be **5% instead of 4%**.

For eligible companies with PUC of \$250 million or less and that operate in the **metal processing sector**, the rate will be **increased by another 5% or 10%** (5% for resource regions and 10% for other Quebec regions). An eligible company in this sector is, in short, a company that has over 50% of its salaries and wages attributable to activities described under codes 331 and 332 of the North American Industry Classification System (NAICS).

The following table summarizes, by type of region, the ITC rates and the applicable period. The rate in parentheses is the rate applicable to an eligible company engaged in metal manufacturing.

Region where the property is used		Rate applicable until August 15, 2018		Rate applicable from August 16, 2018 to December 31, 2019	
		PUC≤\$250M	PUC>\$250M	PUC≤\$250M	PUC>\$250M
<i>Resource regions</i>	<i>Remote region</i> (Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie-Iles-de-la-Madeleine)	24%	4%	40% (45%)	5%
	<i>Eastern part of the Bas-St-Laurent</i> (MRC de la Matapédia, Mitis and La Matanie)	16%	4%	30% (35%)	5%
	<i>Intermediate region</i> (Saguenay-Lac-St-Jean, Mauricie, MRC Antoine-Laberge, Kamouraska, La Vallée-de-la-Gatineau, Les Basques, Pontiac, Rimouski-Neigette, Rivière-du-Loup and Témiscouata)	8%	4%	20% (25%)	5%
<i>Other regions of Quebec</i>		Not eligible	Not eligible	10% (20%)	5%

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Beginning on January 1, 2020, ITC rates are expected to return to those that applied before August 16, 2018 and to remain at those levels until the ITC program is scheduled to end on December 31, 2022. In addition, beginning in 2020, the credit will no longer be available for property used in Quebec regions other than resource regions.

It should also be noted that these amendments to the ITC are on top of the increased capital cost allowances that the government announced in the last two budgets, which were essentially aimed at fostering purchases of the same type of property.

Lastly, Information Bulletin 2018-7 also announced additional small reductions to the Health Services Fund contribution rate for all small and medium enterprises. More detailed information can be found on the website of the Ministère des Finances.

If you would like to discuss these ITC increases and how they might affect your business, we welcome you to contact one of our government incentive advisors for additional information. We have assisted clients in accessing over half of the ITCs granted by the Government of Quebec since the measure was first created, and it would be our pleasure to share our unique expertise and experience with you.

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