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R&D Tax Update

Provincial news: Recent changes to the Quebec e-business development tax credit create new opportunities

July 24, 2013 (13-3)

On July 11, 2013, the Ministère des Finances du Québec published **Information Bulletin 2013-7**, which introduced certain amendments to the refundable tax credit for the development of e-business (TCEB), the main one being that the eligibility period for this measure, originally scheduled to end on December 31, 2015, will be extended to December 31, 2025. This is excellent news.

Also, starting January 1, 2016, the maximum annual credit per employee, currently \$20,000, will be increased to \$22,500.

Deloitte applauds this announcement, which will strengthen the information technology (IT) services industry, an important factor for improved industrial productivity. Specialized IT firms as well as industrial or service companies who undertake IT will benefit from the clarification regarding and improvements to this important program. It should be noted that companies which are not headquartered in Quebec are also entitled to the TCEB as long as the criteria are met.

Other technical amendments have been introduced regarding eligible activities of corporations actively involved in the IT sector. These amendments are intended to confirm certain administrative positions taken by Investissement Québec since the introduction of the TCEB, and will apply to a corporation's taxation year that begins after July 11, 2013.

Currently, the following four activities are considered to be eligible activities:

- **IT consulting services** relating to technology or systems development, or consulting services in e-business processes and solutions, such as strategic planning, business process reconfiguration and technology architecture design
- **Development, integration, maintenance or evolution** of information systems, such as distribution packages and computer software, and programs technology infrastructures, such as technology architecture upgrading and integration of hardware and software components
 - Activities relating to the maintenance or evolution of a corporation's information systems and technology infrastructures are not eligible unless incidental to development or integration activities carried on by the corporation
- **Design or development of e-commerce solutions**, such as portals, search engines and transactional web sites

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- **Development of security and identification services**, including electronic imaging, artificial intelligence and interface that are related to e-business activities such as internet security

The Information Bulletin introduces restrictions to the first category, **IT consulting services** provided to a person. As a result, these services will only be eligible for the TCEB if they relate to 1) the **development, integration, maintenance or evolution** of information systems or technology infrastructures, 2) the **design or development of e-commerce solutions** or 3) the **development of security and identification services** that may be carried out for such person.

The Information Bulletin also amends the third category, **design or development of e-commerce solutions**, and provides that such activities will only be eligible for the TCEB if the e-commerce solution allows for a monetary transaction. This clarification ends the debate that had taken place on the definition of what constitutes an e-commerce solution.

Finally, an amendment has been introduced to specify that a marketing activity relating to an information system designed to increase the visibility of a business and promote its goods and services to existing or potential customers, does not qualify as an eligible activity for the TCEB. It is our understanding that design and development activities related to informational websites will no longer qualify either. However, the Information Bulletin notes that this exclusion does not apply to an activity relating to an information system “including a component that partly concerns marketing”. As we understand it, if the marketing aspect is incidental to the designed or developed element, the related activity might be eligible.

The Information Bulletin states that these technical amendments are intended to clarify that an activity’s eligibility for the purposes of the TCEB depend on the nature of the activity “regardless of whether the activity is described as technology architecture design, distribution package, portal, transactional website or other”. As such, the examples of eligible activities currently noted in the *Act respecting the sectoral parameters of certain fiscal measures* (commonly known as the Sectoral Act) will be removed.

Our R&D/Government Incentives group is available to discuss opportunities to optimize the TCEB for companies.

Albert De Luca, National Leader

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