

1999-2000
BUDGET

Additional

Information

on the Budgetary

Measures



Gouvernement du Québec
Ministère des Finances

Additional Information on the Budgetary Measures

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1. MEASURES CONCERNING INDIVIDUALS

1.1 General tax reduction of \$400 million as of July 1, 2000

As part of this Budget Speech, the government undertakes to reduce personal income taxes by \$400 million over a full year, as of July 1, 2000. These tax reductions will be reflected in pay cheques as of that date. Their impact on the government will amount to \$100 million per quarter, i.e. \$300 million for fiscal year 2000-2001 and \$400 million for subsequent fiscal years.

A bill to amend the *Taxation Act*, among others, will be tabled next fall to implement the measures announced in this Budget Speech and reflect the government's commitments.

The parameters used to implement these tax reductions will be released in the next Budget Speech.

Today, the government is tabling a discussion paper entitled *Personal Income Tax Reduction*. This document is designed to spark discussion on the most appropriate way to lower the personal income tax burden, taking into consideration Québec's social and economic situation. Discussions, in which various Québec social groups will be invited to take part, will be held next fall as part of a parliamentary committee on reducing personal income taxes.

1.2 Reduction in the Health Services Fund contribution

Currently, an individual who receives, during a taxation year, income other than employment income, is required to pay, for such taxation year, a contribution to the Health Services Fund (HSF) equal to 1% of the portion of the total of such income that exceeds \$5 000 (the 1% HSF contribution). However, some types of income are excluded from the base of this contribution, in particular, income security benefits, indemnities paid by the Commission de la santé et de la sécurité du travail and the Old Age Security pension.

This contribution is currently calculated according to the following table.

TABLE 1.1

CONTRIBUTION TABLE IN 1999

Income subject to contribution		Contribution
Greater than	But no exceeding	
\$0	\$5 000	Nil
\$5 000	\$20 000	1% of the amount over \$5 000
\$20 000	\$40 000	\$150
\$40 000	\$125 000	\$150 plus 1% of the amount over \$40 000
\$125 000		\$1 000

To ensure that more low-income individuals are no longer required to pay this contribution, the exemption amount, which currently stands at \$5 000, will be raised to \$11 000. Corresponding adjustments will be made to the table used to calculate the 1% HSF contribution, as shown below.

TABLE 1.2

CONTRIBUTION TABLE IN 2000

Income subject to contribution		Contribution
Greater than	But not exceeding	
\$0	\$11 000	Nil
\$11 000	\$26 000	1% of the amount over \$11 000
\$26 000	\$40 000	\$150
\$40 000	\$125 000	\$150 plus 1% of the amount over \$40 000
\$125 000		\$1 000

The following table shows the impact of this measure on various types of households. In particular, it shows that individuals 65 or over will benefit the most from the rise in the HSF contribution threshold from \$5 000 to \$11 000.

TABLE 1.3

**IMPACT OF RAISING THE HSF CONTRIBUTION THRESHOLD
FROM \$5 000 TO \$11 000 BY CATEGORY OF HOUSEHOLD**
(taxation year 2000)

	Category of household					Total
	Persons 65 or over ¹	Couples with children	Couples without children	Single- parent families	Persons living alone	
Number of households affected	384 288	225 019	196 568	36 639	203 918	1 046 432
Average impact per household affected (in dollars)	45	40	44	35	36	42
Total impact (in millions of dollars)	17.6	9.0	8.7	1.3	7.4	44.0

1 This category includes households with at least one person 65 or over.

This measure will apply as of taxation year 2000.

1.3 Introduction of a new refundable tax credit for home support of older persons losing their autonomy

The United Nations has declared 1999 the International Year of Older Persons. Its objectives are to improve understanding, harmony and mutual assistance among generations, to raise awareness of the contribution of the elderly in the family and the community, and to encourage all sectors of society to meet the needs of an aging population in a rapidly changing world.

The International Year of Older Persons is especially significant for Québec society since the elderly form one of the fastest growing segments of its population. In addition, more and more elderly who are losing their autonomy are expressing a need to remain as long as possible in their community, near their natural support network of friends and family. To satisfy this need, older persons facing a loss of autonomy can turn to a range of home support services that enable them to maintain or recover a satisfactory degree of autonomy. These services help improve the quality of life of elderly persons losing autonomy, in the sense that they remove the need for, or postpone, being lodged in a health care establishment, encourage social integration and provide natural caregivers with support.

Older persons losing autonomy can turn to a large number of businesses, or hire one or more persons, to obtain the services they need to remain in their home environment. Under this approach, the elderly facing a loss of autonomy see themselves not as passive beneficiaries, but as people who actively decide on the measures to take to improve their well-being.

To help older persons who decide to remain in their home environment as long as possible, the government will introduce, as of January 1, 2000, a refundable tax credit for home support of older persons losing their autonomy.

The new refundable tax credit will be equal to 23% of eligible expenditures. However, such expenditures will be limited to \$12 000 a year. In addition, such expenditures will have to be paid through the "service employment paycheque" (SEP). Under this payment mechanism, elderly persons will no longer have to wait until they file their tax return to benefit from this tax credit, since the SEP manager will be authorized to pay it in advance when eligible expenditures are paid.

Client approach

When an elderly person approaches a person who carries on a business to obtain eligible home support services, payment of such services by means of the SEP will not change his business relations with such person. More specifically, the person carrying on a business will not have a new debtor in the person of the SEP manager, since the latter will simply execute, in his favour, the order to pay received from the client.

Employer approach

The administrative tasks an employer must normally assume may discourage some elderly persons from hiring an individual to obtain home support services. The SEP will greatly simplify the employer's tasks since it will assume the role, with respect to payments made to an employee, of a payroll service.

Objectives

In addition to maintaining at home elderly persons losing their autonomy and improving their quality of life, the refundable tax credit for home support of older persons losing their autonomy will help:

- reduce unreported work in the home services sector, which currently occurs at the expense of private businesses;
- provide full social protection to individuals employed by elderly persons;

- create jobs in non-specialized fields;
- provide respite for natural caregivers.

□ Overview

In general, an individual who, at the end of a taxation year, resides in Québec, has turned 70 and has been designated by a local community service centre (CLSC) as losing autonomy may claim a refundable tax credit, for such year, equal to 23% of eligible expenditures he has paid during such year to obtain certain home support services. The amount of expenditures eligible for this tax credit will be subject to an annual cap of \$12 000, which will enable an individual to receive maximum tax assistance of \$2 760 per year for home support services.

However, the expenditures incurred to obtain eligible services will entitle the taxpayer to the tax credit only if he uses the SEP mechanism to pay for them. In addition, the tax legislation will authorize Services de paie Desjardins (SPD), an administrative unit of the Confédération des caisses populaires et d'économie Desjardins du Québec which is responsible for the management of the SEP, to pay an advance on the tax credit as the individual pays the cost of eligible services he has received. When the individual's income tax return is filed, the total amounts paid by SPD as advances will have to be reconciled with the amount of tax credit the individual is entitled to.

□ Older persons losing their autonomy

An individual must be designated by a CLSC as losing his autonomy to be able to claim the tax credit. The ministère de la Santé et des Services sociaux (MSSS) will set the criteria for determining whether an older person is losing his autonomy. Within the next few months, the MSSS will publish a brochure describing these criteria.

□ Eligible expenditures

For the purposes of calculating the tax credit an individual is entitled to for a taxation year, eligible expenditures will be equal to the least of the following amounts:

- \$12 000;
- the total amounts paid during the year by the individual to obtain, after he has turned 70, eligible services, which will correspond:
 - if the services are provided by an employee of the individual, to the total gross wages of the employee and the associated employer contributions, in particular those to the Québec Pension Plan and employment insurance;

- if the services are provided by a person carrying on a business (self-employed worker, cooperative organization, for-profit corporation, etc.), to the expenses paid in consideration of the services provided, including, if applicable, the goods and services tax (GST) and the Québec sales tax (QST);
- the management fees under the SEP.

In some cases, a portion of the rent paid by an individual who lives in a dwelling in a rental building may include an amount for an eligible cafeteria or housekeeping service, for instance. More specifically, such an amount may be included in calculating the individual's eligible expenditures, provided it is billed separately by the lessor.

As mentioned above, the tax legislation will stipulate that an amount paid by an individual to obtain eligible services may not be included in calculating expenditures eligible for the tax credit unless such amount is paid using the SEP mechanism, i.e. in accordance with an arrangement the individual has reached with SPD. In addition, the amount paid to obtain eligible services for which the individual or his spouse has received or will be entitled to receive a refund will be excluded from the calculation of eligible expenditures.

On the other hand, when an individual claims the tax credit for home support of older persons losing their autonomy for an amount paid to obtain eligible services which otherwise constitute medical expenses eligible for the tax credit for medical expenses, such amount will not entitle the individual to the tax credit for medical expenses.

□ Eligible services

Home support services that entitle the taxpayer to the tax credit will be divided into two categories: direct personal services and household services.

TABLE 1.4

ELIGIBLE SERVICES FOR THE PURPOSES OF THE TAX CREDIT

Direct personal services	Household services
Non-professional services for daily living activities such as eating, washing, dressing ¹	Housekeeping, such as general maintenance of living quarters (sweeping, dusting, cleaning) and of everyday appliances (refrigerator, stove, etc.)
Meal preparation service, such as a catering service or cafeteria service ²	Care of clothing
Non-specialized supervision, such as caretaking	Shopping for everyday staples and other necessities
Civic support, such as accompanying the person outside the home, helping to fill in a form, administering a budget	Minor work outside the home such as cutting the grass, washing windows, clearing snow

- 1 These services are eligible only if, in the CLSC assessment of the individual's degree of autonomy, they are considered essential for living at home and the CLSC is not able or not required to provide access to them.
- 2 The cost of food is not an eligible expenditure for the purpose of the tax credit. Accordingly, only the amount that is reasonably attributable to the delivery of the service can be included in the calculation of eligible expenditures, provided it is billed separately.

To be eligible, services must be provided in Québec by a person who is neither the spouse of the individual nor his dependant. In addition, in the case of household services, they must be provided for a dwelling which is self-contained domestic establishment of which the individual or his spouse is the owner, tenant or sub-tenant, or for the land on which such dwelling is located.

In addition, in the case of direct personal services, they may not be provided by an individual who claims, or whose spouse claims, the tax credit for an adult housing a parent for the taxation year during which such services are provided for such parent. However, a person 70 or over may still entitle the taxpayer to the tax credit for an adult housing a parent if the application conditions of such measure are satisfied, while also claiming the tax credit for home support regarding the eligible services provided to him.

Lastly, services whose delivery is governed by a professional order covered by the *Professional Code*, as well as those relating to construction or repair work or requiring a specific competency card, will not be eligible for the tax credit for home support.

❑ Operation of the SEP

Currently, the SEP covers only the recipients of the "direct allowance", a program administered by CLSCs. As part of the implementation of the tax credit for home support of older persons losing their autonomy, use of the SEP will be expanded to everyone who is entitled to this tax credit.

In the case where the individual hires an employee to obtain services at home, the SEP will operate as follows:

- the individual authorizes SPD to deduct from his bank account the amounts required to pay for the services provided, including employer contributions (contributions to the Québec Pension Plan, employment insurance, etc.) as well as SEP management fees;
- at the end of each pay period, the individual will send the information needed for SPD to prepare the pay (name, address and social insurance number of the employee, gross wage, etc.);
- SPD calculates the amount of source withholdings and employer contributions;
- SPD withdraws, from the individual's bank account, the amounts required to pay the employee's gross wage, the employer contributions and the SEP management fees, less the advance on the tax credit to be received by the individual;
- SPD remits to the government the payroll taxes and amounts withheld at source, thus ensuring that the employee benefits from social protection, among other things, in terms of employment insurance and retirement protection resulting from his employment;
- SPD pays the employee his net wage;
- SPD retains the portion of the amount withdrawn which is attributable to SEP management fees.

If the individual, to obtain home support services, turns to a person carrying on a business, the SEP will operate as follows:

- the individual authorizes SPD to withdraw from his bank account the amounts required to pay for the services provided and the SEP management fees;
- the individual sends SPD the information needed to pay for the home support services by indicating on a document, in particular, the price paid for the services plus, if applicable, GST and QST;
- SPD withdraws from the individual's bank account the amounts required to pay the supplier of the service and the SEP management fees, less the advance on the tax credit to be received by the individual;
- SPD pays the supplier of the service and retains the portion of the amount withdrawn which is attributable to SEP management fees.

The eligible individual must keep all his bills and other supporting documentation relating to the services he has received, since the ministère du Revenu du Québec (MRQ) may, in a subsequent audit of his tax return, demand proof that the services received were services eligible for the tax credit for home support of older persons losing their autonomy. The period during which such supporting documentation must be kept will be subject to the general rule according to which anyone required to keep registers and books of account must keep them, along with any voucher attesting the information contained therein, for six years after the last year to which they relate.

□ Application date

The refundable tax credit for home support of older persons losing their autonomy will apply as of taxation year 2000.

1.4 Greater tax assistance for persons having a severe and prolonged physical or mental impairment

1.4.1 Improved tax credit

Under existing rules, a non-refundable tax credit of \$506 is granted to an individual having a severe and prolonged physical or mental impairment. The unused portion of this tax credit can be transferred to the parents or spouse of the individual having such an impairment.

The purpose of this tax credit is essentially to take into account the fact that the ability to pay taxes of individuals having such an impairment, their spouse or parents, is lower because of the additional costs they, their spouse or parents must support in this regard.

For the purposes of this tax credit, a impairment is considered to be prolonged if it lasts for at least 12 continuous months or if it can reasonably be expected to last for such a period. In addition, for an individual to avail himself of this measure, the impairment must markedly restrict his ability to perform a basic activity of daily living.

In this regard, the tax legislation stipulates that a person's ability perform a basic activity of daily living is markedly restricted only where all or substantially all of the time, even with therapy and the use of appropriate devices and medication, the individual is blind or unable, or requires an inordinate amount of time, to perform a basic activity of daily living.

For this purpose, the only basic activities of daily living that are recognized are as follows:

- perceiving, thinking and remembering;
- eating and dressing;
- speaking so as to be understood, in a quiet setting, by another person familiar with the individual;
- hearing so as to understand, in a quiet setting, another person familiar with the individual;
- eliminating (bowel or bladder functions);
- walking.

In addition, to be entitled to the tax credit for severe and prolonged physical or mental impairment, the individual must include with his tax return a form completed by a duly authorized health professional attesting that the impairment satisfies the criteria described above.

Application of these criteria causes problems for the tax authorities who are responsible for checking compliance case by case. Accordingly, the MRQ has made efforts in recent years to improve the form supporting the claim for the tax credit, to avoid errors made in good faith by health professionals or by taxpayers. However, in spite of the progress made in this regard, there are still problems regarding the administration of the tax credit for severe and prolonged physical or mental impairment.

This issue is of concern to the Minister of Revenue, Rita Dionne-Marsolais, and on May 21, 1998, she formed a task force to review the administration of this tax credit.

The task force concluded that the current criteria for entitlement to the tax credit for severe and prolonged physical or mental impairment are generally satisfactory, except in certain circumstances in which a person must spend a long time, many times a week, on prescribed therapy essential to the maintenance of his vital functions.

Recently, the Tax Court of Canada concluded that a taxpayer could claim the tax credit for severe and prolonged physical or mental impairment for his two children suffering from cystic fibrosis, as their ability to perform a basic activity of daily living was markedly restricted, given that each of them had to spend two hours a day on the care required by their condition. In this sense, the new attitude of the courts is consistent with the recommendation formulated by the task force.

Accordingly, to clarify the application of the tax credit for severe and prolonged physical or mental impairment, the tax legislation will be amended to stipulate that a person's ability to carry out a basic activity of daily living is markedly restricted when, because of illness, a person must spend, several times a week, a lengthy period of time on therapy, prescribed by a physician, that is essential to the maintenance of his vital functions.

In addition, the current wording of basic activities of daily living that are related to a person's ability to speak or hear will be changed to better reflect the MRQ's liberal interpretation.

The addition of the criterion based on the time required to administer therapy prescribed by a physician should enable about 10 000 more individuals to claim the tax credit for severe and prolonged physical or mental impairment.

The changes thus made to the criteria for entitlement to the tax credit for severe and prolonged physical or mental impairment will apply as of taxation year 1999.

1.4.2 Possibility to benefit from the simplified tax system expanded

Since taxation year 1998, individuals who make little use of the benefits relating to deductions and non-refundable tax credits can elect to file under a simplified tax system. Under this system, an individual can replace a set of deductions and non-refundable tax credits with an amount of \$2 350. This lump sum amount, converted at 23%, provides a tax reduction of \$541.

In the March 25, 1997 Budget Speech, it was specified that the deductions and non-refundable tax credits replaced by the lump sum amount of \$2 350, among others, included the tax credit for a person having a severe and prolonged physical or mental impairment and the tax credit for a dependant having a severe and prolonged physical or mental impairment.

As a general rule, individuals having a severe and prolonged physical or mental impairment who hold a job or carry on a business gain nothing from filing their tax return under the simplified tax system since the lump sum amount of \$2 350 allowed under this system replaces, in addition to the amount of \$2 200 used in calculating the tax credit for a person suffering from an impairment, the various contributions a worker must pay, such as contributions to the Québec Pension Plan and employment insurance. The same holds true for individuals to whom the deduction not used by a person having such an impairment is transferred.

In order that individuals having a severe and prolonged physical or mental impairment, their spouse or parents, may, like the vast majority of Quebecers, enjoy the benefits of the simplified tax system, the tax legislation will be amended to stipulate that an individual who files his tax return under the simplified tax system will be able to deduct, in calculating his tax otherwise payable, the amount of the tax credit for a person having a severe and prolonged physical or mental impairment or the tax credit for a dependant having a severe and prolonged physical or mental impairment.

These changes will apply as of taxation year 1999.

1.5 Improved tax assistance for families

1.5.1 Maximum refundable tax credit for adoption expenses increased from \$2 000 to \$3 000

A refundable tax credit for adoption expenses was introduced in the May 12, 1994 Budget Speech and was applicable as of taxation year 1994, to provide further support for families adopting a child.

Currently, the amount of the refundable tax credit that can be claimed by an individual who adopts a child is equal to 20% of eligible adoption expenses paid by the individual or his spouse. However, this tax credit cannot exceed \$2 000 per child, which corresponds to maximum eligible adoption expenses of \$10 000.

For an individual to be able to claim this tax credit for a taxation year, the final adoption judgment must have been rendered during such year or, in the case of the adoption of a child domiciled in the People's Republic of China, the certificate of registration of the adoption must be issued by the clerk of the Court of Québec during such year.

Eligible adoption expenses include all legal and extra-legal expenses paid with a view to obtaining either a final adoption judgment in Québec, or a certificate of registration issued by the clerk of the Court of Québec in the case of the adoption of a child domiciled in the People's Republic of China. They also include travel expenses, expenses for the translation of documents relating to the adoption when required, fees charged by organizations accredited by the ministère of the Santé et des Services sociaux, as well as payment of fees charged by the foreign institution which cared for the child before he began to live with his adoptive parents.

To more adequately recognize the contribution of adoptive families to Québec society and considering that the costs relating to international adoption generally exceed the maximum eligible adoption expenses, the amount of this tax credit will be raised.

More specifically, the maximum amount of eligible adoption expenses will rise from \$10 000 to \$15 000, raising the maximum amount of the tax credit for adoption expenses from \$2 000 to \$3 000.

This improvement will benefit about 1 000 Québec households a year, and will apply as of taxation year 1999, regarding final adoption judgments handed down after December 31, 1998 or, as the case may be, certificates of registration of an adoption issued by the clerk of the Court of Québec after such date.

1.5.2 Increased maximum amounts of qualified child care expenses

Currently, the amount of qualified child care expenses of an individual, for a taxation year, cannot exceed \$5 000 per child under 7 years of age on December 31 of such year or having a severe and prolonged physical or mental impairment. For other eligible children, the amount of qualified child care expenses cannot exceed \$3 000 per child.

To more adequately reflect the costs of child care, the maximum amount of qualified child care expenses paid regarding a child will be substantially raised.

Accordingly, as of taxation year 1999, the \$5 000 cap regarding a child under 7 years of age or having a severe and prolonged physical or mental impairment will be raised to \$7 000, while the \$3 000 cap regarding other eligible children will be increased to \$4 000.

1.6 Non-taxation of certain travel expense allowances paid to a lecturer

Except in certain cases specifically provided for in the tax legislation, an employee who receives an allowance from his employer is required to include the amount of such allowance in his employment income. One such exception is the case of a part-time employee who receives from his employer an allowance to cover the travel expenses he incurs to reach his place of work. To benefit from this tax treatment, the individual must, among other conditions, hold such job on a part-time basis during a period throughout which he holds another job or carries on a business, and the place where he holds such part-time job must be at least 80 kilometres from his ordinary place of residence and the principal place of his employment or the principal place where he carries on his business.

In particular, this measure helps universities and other educational institutions located outside major urban centres to recruit part-time instructors.

An individual may not be able to benefit from this exceptional measure simply because, as a result of the situation on the job market, he has no employment other than a lecturer's job. Such individual must then include in calculating his income the amount of travel expense allowances paid to him, whereas if he had another job, such allowances would be excluded from this calculation.

To correct this situation, a technical change will be made to the tax legislation. Accordingly, for an individual who holds an instructor's job on a part-time basis to receive from his employer, tax-free, a travel expense allowance or a reimbursement for such expenses to enable him to reach his place of work, he will not be required to hold another job or carry on a business throughout the period when he holds such part-time job. However, to benefit from such treatment, all the other conditions currently stipulated in the tax legislation must be satisfied, in particular those relating to the distance from the place of work.

This change will apply as of taxation year 1999. It will also apply regarding any taxation year of an individual for which, on the date of the Budget Speech, the tax payable by such individual, for such year, may be determined again, or a new assessment or additional assessment may be issued.

2. MEASURES CONCERNING BUSINESSES

2.1 Integrated fiscal strategy for the knowledge-based economy

There is now a broad consensus on the central role scientific research and experimental development (R&D) plays as a factor of economic development. In this regard, Québec has distinguished itself from competing jurisdictions by its vigorous support of businesses, particularly through fiscal measures. Following the example of R&D, more recently it has also implemented measures in support of other types of innovation, frequently downstream from R&D, in sectors of activity commonly linked with the knowledge-based economy. Such is the case, among others, with measures relating to the production of multimedia titles, information technology development centres (CDTIs) and the Cité du multimédia.

The refundable tax credit for the production of multimedia titles was introduced in the May 9, 1996 Budget Speech. A new component was added to this tax credit in the March 31, 1998 Budget Speech, for corporations whose activities consist almost exclusively in producing multimedia titles in an establishment located in Québec.

The CDTI measures were brought forward in the March 25, 1997 Budget Speech. They are designed to support businesses that undertake to carry out, in specified buildings, innovative projects in emerging sectors of activity.

Lastly, the Cité du multimédia, located near the Old Port of Montréal, was created on June 15, 1998. Briefly, eligible businesses which move there can claim a refundable tax credit for wages incurred to carry in specified buildings out activities linked to information and communications technology.

In view of the success of these recent initiatives, the territorial reach of these tax measures supporting the knowledge-based economy will be extended to Québec City, with the creation of the Centre national des nouvelles technologies de Québec, and to the regions, with the creation of new economy centres. In addition, the CDTI and Cité du multimédia measures will be enriched.

The Bureau des centres de développement des technologies de l'information (BCDTI), formed along with the CDTIs, has had its mandate expanded since the creation of the Cité du multimédia. With the new responsibilities it will receive under this Budget Speech, it will become a one-stop centre, streamlining the management of all tax measures supporting the knowledge-based economy. Accordingly, the BCDTI will henceforth be known as the Bureau de développement de la nouvelle économie (BDNE).

Sub-section 2.1 includes a number of tax measures designed to further promote R&D and facilitate technological adaptation, as well as other measures that favour businesses in the knowledge-based economy.

An Integrated Fiscal Strategy for the Knowledge-Based Economy, a paper published by the government as part of this Budget Speech, deals more fully with the government's policy stance in this regard.

Measures to foster scientific research and experimental development

2.1.1 Implementation of super-deductions

For many years now, Québec's tax system has featured a variety of measures to stimulate R&D activities in Québec. The refundable tax credits Québec allows in this realm are a central feature of these incentive measures.

To optimize the tax benefits relating to R&D activities in Québec, the tax legislation will be amended to enable corporations that are otherwise eligible for refundable tax credits for R&D to forego them and instead claim super-deductions in calculating their income. For a corporation with enough income to make use of these super-deductions, they will, on the whole, be more attractive in the Canadian tax environment.

□ General application details

In general, the amounts used as the basis for calculating tax credits will also form the basis for calculating super-deductions. The conditions governing a corporation's eligibility for a super-deduction will be the same as those allowing it to claim any of the tax credits for R&D.

The following table shows the rates of the super-deductions for R&D which a corporation may elect to claim, in place of the current five categories of refundable tax credits.

TABLE 1.5

SUPER-DEDUCTION RATES

Super-deduction applicable	Rate
To the first \$2 million of R&D wages ¹ of a corporation whose assets ² are less than \$25 million ³	460%
To the R&D wages of a corporation whose assets exceed \$50 million	230%
To university research contracts, or contracts with an eligible public research centre or a research consortium	460%
To pre-competitive research	460%
To contributions or fees payable to a research consortium	460%

1 Including situations in which a corporation has R&D done on its behalf under outside contracts concluded with third parties which are or are not at arm's length with the corporation. Above \$2 million of R&D wages, the rate will be 230%.

2 These are the assets for the preceding taxation year and the applicable rules for determining them will be the same as those currently stipulated for the purpose of the tax credit.

3 For a corporation whose assets are between \$25 million and \$50 million, the rate of the super-deduction will decline linearly from 460% for the first \$2 million of R&D wages, in a manner similar to the existing gradual reduction criterion applicable to the tax credit. Above \$2 million in R&D wages, the rate will be 230%.

The option of claiming a super-deduction rather than a refundable tax credit will be available only to corporations, subject to the specific provisions relating to partnerships stipulated below.

In order to claim a super-deduction, an irrevocable election must be made, for a taxation year, using a prescribed form filed with the Minister of Revenue no later than 12 months after the deadline for filing the corporation's tax return for such year. The election to claim a super-deduction may apply to all or part of the amount forming the basis of the calculation of a refundable tax credit and will irrevocably replace entitlement to any of the refundable tax credits to which the corporation would be entitled in regard to the portion of the basic amount covered by such election. However, a separate election will apply to each of the five categories of tax credits mentioned in the preceding table.

☐ Gross-up based on the proportion of business done in Québec

To enable a corporation which does part of its business outside Québec during a taxation year to benefit fully from these super-deductions, the amounts of such super-deductions will be divided by the proportion of its business done in Québec for such year.

❑ Deduction in calculating income

After applying the gross-up based on the proportion of business done in Québec, the super-deductions the corporation elects to claim will be allowed in calculating the corporation's income, but they may not exceed the income, for a taxation year, from an eligible business carried on by the corporation. Super-deductions may not be paid into an account or deferred.

❑ Other application details

A corporation which is a member of a partnership at the end of a fiscal year of such partnership may also, provided it is entitled to them, for the taxation year in which such fiscal year ends, under the rules relating to tax credits for R&D and according to the same terms and conditions, be entitled to a super-deduction depending on its share of the income or loss of the partnership for such fiscal year. Each member corporation may make an election in this regard, without it being required that all member corporations also opt for a super-deduction.

The current application details of the tax credits will apply, with the necessary adaptations, to the right to claim super-deductions, in particular regarding advance rulings, rules relating to contributions and the time period for filing information using the prescribed form. Accordingly, when expenditures, or expenses incurred under a contract, entitle a corporation to a super-deduction, no other taxpayer may claim a tax credit or a super-deduction regarding such expenditures or such expenses.

Lastly, in the case where a corporation reduces, during a taxation year, its instalments, in particular regarding the tax on capital, under the special provisions for reducing instalments stipulated for certain R&D tax credits, and elects instead to claim a super-deduction, no interest for insufficient payments will be applied regarding the payment or partial payment it has not made in accordance with these special provisions for reducing instalments.

❑ Application date

These changes will apply to taxation years of corporations beginning after June 30, 1999.

2.1.2 Introduction of a tax credit based on the increase in expenditures

A corporation which, for a taxation year, may be otherwise entitled to the refundable tax credit on R&D wages at the rate of 40%, i.e. essentially a Canadian-controlled corporation with assets¹ less than \$25 million, may temporarily claim a new refundable tax credit, in addition to the refundable tax credits it is otherwise entitled to.

In general, this tax credit will be based on the increase in all the R&D expenditures used as the basis for calculating Québec refundable tax credits for R&D, made by a corporation in a taxation year, compared with the average of all such expenditures made by the corporation during its three preceding taxation years.

The rate of this new refundable tax credit will be 15%. This tax credit will not be subject to income tax.

□ Calculation of the tax credit

More specifically, such a corporation, for a taxation year, may claim the tax credit based on the increase in its expenditures according to the following formula:

$$\text{Amount of tax credit} = A \times (B - C)$$

where:

- A equals 15%;
- B represents all the expenditures used as the base for calculating R&D tax credits² made by the corporation in the taxation year;
- C represents the corporation's reference amount for the taxation year.

1 These are the assets for its preceding taxation year and the applicable rules for determining them will be the same as those currently stipulated for the purpose of the tax credit on R&D wages.

2 Namely, the tax credit on R&D wages (including situations in which a corporation has R&D done on its behalf under outside contracts concluded with third parties which are or are not at arm's length with the corporation), the tax credit for a university research contract (or a contract with an eligible public research centre or a research consortium), the tax credit for pre-competitive research and the tax credit for contributions to a research consortium.

A corporation's reference amount for a given taxation year is equal to the product obtained by multiplying the proportion of the number of days of the given taxation year and the number of days of the corporation's reference period by the amount of all expenditures eligible for R&D tax credits made by the corporation during the reference period. Special rules will be stipulated for calculating the reference amount in the case of associated corporations and in cases of merger or winding-up.

A corporation's reference period for a given taxation year will correspond to the corporation's three preceding taxation years or, if the corporation has had fewer than three taxation years, the period beginning on the first day of its first taxation year and ending immediately prior to the given taxation year. Special terms and conditions will be stipulated for corporations resulting from a merger and those to which certain provisions concerning winding-up have applied.

Eligible expenditures made during the reference period correspond to the expenditures used as the basis for calculating R&D tax credits made during such period.

□ Reference amount of an associated corporation

The reference amount of a corporation which, for a given taxation year, is associated with one or more other corporations during the year will be calculated according to the following formula:

$$\text{Reference amount} = \frac{A \times B}{B + C}$$

where:

- A represents the total of the following amounts:
 - the corporation's reference amount which would otherwise be determined for the given taxation year, and
 - the reference amount, which would otherwise be determined, of each corporation with which the corporation was associated at any time during the given taxation year, for each taxation year of each associated corporation ending in the same calendar year as the given taxation year;
- B represents the expenditures used as the basis for calculating the R&D tax credits of the corporation for the given taxation year;
- C represents the expenditures used as the basis for calculating the R&D tax credits of each corporation with which the corporation was associated at any time during the given taxation year, for each taxation year of each associated corporation ending in the same calendar year as the given taxation year.

❑ Special provisions

• Reference amount

To determine the reference amount of a corporation resulting from a merger for a given taxation year, the calculation of the reference amount described above will include any amount thus determined regarding each replaced corporation for taxation years beginning in the reference period of the corporation resulting from the merger.

A similar rule will apply, in a winding-up situation,³ to the determination of the reference amount of a parent corporation in order to include the reference amount of its subsidiaries.

• Reference period

To determine the reference period of a corporation resulting from a merger which, after the merger, has had fewer than three taxation years ending before the given taxation year, the reference period will begin to run on the first day, within the period of 36 months ending immediately before the given taxation year, when a taxation year of a replaced corporation started, and it will end immediately before the given taxation year.

If the corporation was a parent corporation in a winding-up⁴ which, after the winding-up, had fewer than three taxation years ending before the given taxation year, the reference period begins on the first day, within the period of 36 months ending immediately before the given taxation year, when a taxation year of the parent corporation or of a subsidiary began, and it will end immediately before the given taxation year.

• Presumption of association

If another corporation was not associated with a given corporation in a given taxation year, but was associated with the given corporation at any time during the reference period of the given corporation for the given taxation year, and if all or almost all the assets used by the former associated corporation in the course of carrying on a business, during such period, were acquired by the given corporation, or by one or more corporations associated with the given corporation in the given taxation year, the following rules will apply:

- the former associated corporation will be deemed to continue to exist, if it has ceased to exist;

3 Winding-up of a subsidiary at least 90% of whose shares of its capital stock belonged to the parent corporation.

4 *Ibid.*

- the former associated corporation will be deemed to be associated with the given corporation in the given taxation year;
- the former associated corporation will be deemed to have had taxation years ending on the anniversaries of the last day of its last taxation year during which it was associated with the given corporation.

However, this last rule will not apply if the former associated corporation was a corporation which merged with the given corporation or a corporation which was wound up in the given corporation.

- **Expenditure limit**

An eligible corporation which, because of the application of the expenditure limit stipulated under the application of the tax credit on R&D wages, is entitled to this tax credit at the rate of 20% for the portion of its eligible expenditure in excess of this limit will continue to be entitled to claim the tax credit based on the increase in its expenditures for the portion in excess of such expenditure limit.

- **Prescribed form**

In order to claim this tax credit, for a taxation year, an eligible corporation will have to file a form, prescribed by the Minister of Revenue, no later than 12 months after the deadline for filing its tax return for such year.

- **Anti-avoidance rule**

An anti-avoidance rule will stipulate that a corporation will not be entitled to this tax credit if, because of transactions or operations, it is reasonable for the Minister of Revenue to consider that one of the main goals of such transactions or operations is to enable the corporation to claim a tax credit which it would not otherwise have been granted.

- **Additional super-deduction**

A corporation will have the option, in lieu of this tax credit based on the increase in its R&D expenditures, of claiming an additional super-deduction in calculating its income, at a rate of 190%.

All the rules described above regarding the calculation of the base of this tax credit will also apply to the determination of the base of this additional super-deduction.

The election of this additional super-deduction will be separate from the other elections described in the preceding sub-section relating to the election of super-deductions in place of R&D tax credits. A gross-up reflecting the proportion of business done in Québec will also apply to this additional super-deduction. However, the amount of all the additional deductions claimed for R&D under this sub-section and the preceding sub-section may not exceed the income, for a taxation year, from an eligible business carried on by a corporation.

The following table shows an example of the tax benefits granted by Québec to a corporation whose assets are less than \$25 million which, in a taxation year beginning after June 30, 1999, begins to carry out R&D in Québec and pays wages to researchers in this regard.

TABLE 1.6

TAX BENEFITS GRANTED FOR AN ADDITIONAL R&D WAGE EXPENDITURE OF A CORPORATION WITH ASSETS OF LESS THAN \$25 MILLION

	Base rate	Additional rate on the increase in expenditures	Total
Tax credit on R&D wages	40% ¹	15%	55%
Election of additional deductions	460% ¹	190%	650%

1 Regarding the first \$2 million of R&D wages.

❑ Application date

These changes will apply to taxation years of a corporation beginning after June 30, 1999 and before July 1, 2004.

2.1.3 Tax holiday for foreign researchers extended from two to five years and introduction of a similar tax holiday for certain foreign experts

Under existing tax rules, a person who is not a resident of Canada and who comes to Québec to work as part of an R&D project can claim, for a maximum of two years, a tax exemption on the wages paid to him as a foreign researcher. This exemption consists of a deduction in the calculation of the foreign researcher's taxable income. The employer of such researcher must, in general, be a corporation which carries on a business in Canada and which is not tax exempt. In the March 31, 1998 Budget Speech, this measure was broadened to cover certain foreign post-doctoral interns who enter into employment contracts with eligible university entities or eligible public research centres.

☐ Extension of the tax holiday

To further assist eligible employers to recruit such researchers, this measure will be improved. Accordingly, the deduction relating to a foreign researcher will henceforth be granted for a period of five years, for any individual who, after the day of the Budget Speech, takes up his duties as an employee of an eligible employer, under an employment contract reached after that day.

☐ Extension of eligibility for the tax holiday to certain experts

Within a business, the training of a complete team of experts specifically dedicated to a single R&D project can be of crucial importance if the R&D activities are to culminate in the commercialization of the resulting innovations.

To help eligible employers to hire experts in, among other things, commercialization and the transfer of leading technology, a component will be added to the tax holiday for foreign researchers.

Accordingly, a foreign expert hired by an eligible employer⁵ for the purposes of carrying out an R&D project may claim an income tax exemption regarding the wages paid to him by the eligible employer, for a period of five years. This exemption will consist of a deduction in the calculation of his taxable income.

The expression “foreign expert” means an individual who, after the day of the Budget Speech, takes up his duties for the first time as an employee of an eligible employer, under an employment contract reached after that day, and regarding whom the eligible employer has obtained a certificate from the ministère de la Recherche, de la Science et de la Technologie (MRST) certifying that such individual is an expert in management or financing of innovation activities, foreign commercialization or transfer of leading technology. In addition, such an individual must satisfy the following conditions:

- he must not reside in Canada immediately prior to the conclusion of the employment contract or immediately before taking up his duties;
- he must work almost exclusively for the eligible employer on a continuous basis;
- the duties or tasks stated above must be carried out almost exclusively as part of an R&D project.

⁵ The expression “eligible employer” will have the same meaning as for the purposes of the tax holiday for foreign researchers.

The MRST will soon release the conditions an individual will have to satisfy to qualify as an expert in any of the duties or tasks mentioned above.

The application details of the deduction relating to a foreign researcher, in particular regarding employment contract renewals, will apply, with the necessary adaptations, to this new deduction relating to a foreign expert.

2.1.4 Designation of a new eligible public research centre

A refundable tax credit of 40% is currently granted to a taxpayer for R&D activities carried out by an eligible public research centre as part of an eligible research contract concluded with such centre.

The Centre de recherche Les Buissons inc. will be recognized as an eligible public research centre, for R&D carried out after the day of the the Budget Speech, under an eligible research contract concluded after that day.

2.1.5 Technical clarification concerning certain sub-contracts

In general, when a taxpayer concludes a university research contract or an eligible research contract, he can claim a refundable tax credit equal to 40% of 80% of the amount of an eligible expenditure paid to the eligible university entity, the eligible public research centre or the research consortium, as the case may be (recognized organizations).

Under the legislative provisions applicable to these types of contracts, the ministère du Revenu du Québec (MRQ) considers that a contract concluded with a recognized organization is a university research contract or an eligible research contract, solely for the portion of the work that is not covered by a sub-contract and for which the recognized organization remains the prime contractor, provided the portion covered by the sub-contract is clearly identified in the research contract concluded by the taxpayer with the recognized organization.

As part of such a research contract, certain situations may arise in which the “sub-contracting” element is relatively tenuous because of the overall control the recognized organization maintains over payments, research personnel and use of funds, premises and equipment. This element is also difficult to assess since it often involves only one individual, for instance a physician acting as principal researcher in clinical research, who is not employed by the recognized organization and whose participation is not assessed in the contract.

To prevent the refundable tax credit from being lost in situations of this nature because of a problem over the research contract qualifying as a university research contract or eligible research contract, a clarification will be made to the tax legislation to stipulate that the contract concluded by the recognized organization be considered a university research contract or an eligible research contract in its totality, without excluding a portion relating to the participation of an independent researcher, provided the MRQ has been shown, as part of the application for an advance ruling relating to the contract, that the overall control of the contract, particularly in view of the aspects mentioned above, is in the hands of the recognized organization.

This clarification will apply to university research contracts and to eligible research contracts for which an advance ruling is issued after the day of the the Budget Speech, provided the deadline for filing the prescribed form for entitlement to the tax credit relating to a university research contract or an eligible research contract has not expired.

Measures to facilitate technological adaptation

2.1.6 Introduction of a refundable tax credit for technological adaptation services

Taxpayers who carry on a business must wade through an ever-growing mass of data and make increasing use of specialized outside expertise when making decisions and carrying out innovation projects.

Such taxpayers, in particular those who carry on a small business, often have little time and few resources to find the relevant information and study it before making a decision. They also have problems identifying specialized external resources and communicating effectively with them.

To support businesses in gathering and processing strategic information, the government created, in 1992, the Sectoral Partnership Fund, one of whose components concerns a business watch.

In recent years, the government has taken many initiatives to intensify collaborative research and innovation efforts between the innovation community and businesses. Two such government initiatives to support partnership were the creation of liaison and transfer centres and college centres for technology transfer.

To further support small businesses in gathering and processing strategic information and in their cooperative research and innovation efforts, a new two-part refundable tax credit will be implemented.

☐ Eligible corporations

In general, any corporation which, during a taxation year, carries on a business in Québec and has an establishment here may, under certain conditions, claim the tax credit for such year.

More specifically, such a corporation may claim the tax credit for technological adaptation services, for a taxation year, if the amount of its assets shown in its financial statements submitted to shareholders for its preceding taxation year or, if the corporation is in its first fiscal year, at the beginning of its first fiscal year, is less than \$25 million, taking into account the assets of corporations associated with such corporation during the year.

However, the following corporations may not claim the tax credit for a taxation year:

- a corporation which obtains more than 10% of its gross income, for the year, from a source other than the operation of an eligible business;
- a corporation exempt from tax for the year;
- a Crown corporation or wholly-owned subsidiary of such a corporation.

Lastly, eligible corporations that are members of a partnership which, if it were a corporation, would be an eligible corporation, may also claim this tax credit. In such a case, eligibility for the tax credit will be determined with reference to the partnership, but the tax credit will be granted to each eligible corporation that is a member of the partnership, for their taxation year in which the fiscal year of the partnership ends, according to their respective share of the income or loss of such partnership for such fiscal year.

☐ Determination of the tax credit

The tax credit an eligible corporation may claim, for a taxation year, will be determined by multiplying by 40% the amount of eligible expenditures incurred by the eligible corporation, during such year, with an eligible business watch centre, an eligible liaison and transfer centre, or an eligible college centre for technology transfer, as the case may be.

☐ Component 1: Business information

Briefly, business information is the result of watches by a business watch centre, namely the identification, acquisition, analysis and assessment of technological or other information, for decision-making purposes.

More specifically, business watch centres offer various products and services, in particular monthly newsletters, customized information services, summaries, multi-client studies, a one-stop information line, systematic monitoring of international markets, a Web site, symposia, seminars and business networking activities. These services are available on an annual or monthly subscription basis, or on a fee-for-service basis, depending on the business watch centre.

- **Eligible expenditures**

For the purposes of the tax credit for technological adaptation services, eligible expenditures, under the first component, refer to the portion of fees charged by an eligible business watch centre, in consideration of the products and services it offers, and which correspond to the following amounts:

- an amount equal to 80% of the fees relating to the watch services supplied by the eligible business watch centre;
- the amount of subscription fees for intelligence products or services offered by the eligible business watch centre;
- the amount of fees for participating in training and information activities, in relation to intelligence services, given by the eligible business watch centre.

More specifically, only the fees relating to appreciation training given on an ad hoc basis other than as part of a regular training program constitute eligible expenditures for the purposes of the tax credit.

- **Eligible business watch centres**

A business watch centre is a group of partners recognized in an economic activity sector. Thirteen business watch centres are currently in operation and offer technology, commercial, environmental and regulatory watch services, mainly to small businesses.

These centres, and the activity sectors in which they operate, are as follows:

TABLE 1.7

Name	Activity sector
Centre de veille concurrentielle sur les communications graphiques (Vigicom)	Graphic communications
Centre de veille de la construction (CeVeC)	Construction
Centre de veille des équipements de transport terrestre (CVETT)	Ground transportation equipment
Centre de veille sur les médias	Media
Centre de veille sur les métaux légers (CVML)	Light metals
CEVEIL (Cellule de veille et d'expertise sur les inforoutes et langues)	Information highway and languages
ÉCO RADAR (Réseau de veille concurrentielle en environnement)	Environment
Observatoire des technologies de l'information du Québec (OBTIQ)	Information technology
Réseau CHIMIE (Réseau d'information stratégique de l'industrie chimique)	Chemistry
Réseau d'information stratégique de la mode et des textiles	Fashion and textiles
Réseau d'information stratégique de plasturgie (RISP)	Plastic processing
Réseau de veille stratégique bioalimentaire (RVSB)	Bio-food
Réseau INFO-BOIS (Réseau d'information sur les produits du bois inc.)	Wood products

These 13 business watch centres will be recognized as eligible business watch centres for the purposes of the tax credit for technological adaptation services, and eligible expenditures incurred with these centres will entitle a corporation to this tax credit.

□ Component 2: Liaison and transfer

Liaison and transfer centres offer a liaison and transfer service between businesses, universities and other innovation stakeholders. They help businesses to pinpoint their needs, assist stakeholders to make contact and communicate with each other, and support businesses in the various stages of carrying out their innovation project.

College centres for technology transfer, which are linked to CEGEPs and are located throughout Québec, play much the same role at the regional and local levels. They also offer technical training services.

More specifically, the liaison and transfer services offered by such organizations consist of location and brokerage of research results, assessment of a business's needs, bringing stakeholders together, carrying out technical feasibility studies and assessing the commercial potential of innovation projects as well as supporting businesses in the stages of carrying out their innovation project. In addition, some liaison and transfer centres also carry out software certification tests.

- **Eligible expenditures**

For the purposes of the tax credit for technological adaptation services, eligible expenditures, under the second component, mean the portion of fees charged by an eligible liaison and transfer centre or by an eligible college centre for technology transfer, as the case may be, in consideration of the products and services it offers, and which correspond to the following amounts:

- an amount equal to 80% of the fees relating to liaison and transfer services provided by the eligible liaison and transfer centre or by the eligible college centre for technology transfer, as the case may be;
- the amount of subscription fees for products or liaison and transfer services offered by the eligible liaison and transfer centre or by the eligible college centre for technology transfer, as the case may be;
- the amount of fees for participating in training and information activities, relating to liaison and transfer services, given by the eligible liaison and transfer centre or by the eligible college centre for technology transfer, as the case may be.

More specifically, only the fees relating to appreciation training given on an ad hoc basis other than as part of a regular training program constitute eligible expenditures for the purposes of the tax credit.

- **Eligible liaison and transfer centres**

Six liaison and transfer centres will be recognized as eligible liaison and transfer centres for the purposes of the tax credit for technological adaptation services, and eligible expenditures incurred with such centres will entitle a corporation to this tax credit.

The centres are as follows:

- Centre de recherche en calcul appliqué (CERCA);
- Centre de recherche informatique de Montréal (CRIM);
- Centre francophone en informatisation des organisations (CEFRIO);

- Centre interuniversitaire de recherche en analyse des organisations (CIRANO);
- Centre québécois de recherche et de développement de l'aluminium (CQRDA);
- Centre québécois de valorisation des biomasses et des biotechnologies (CQVB).

- **Eligible college centres for technology transfer**

For the purposes of the tax credit for technological adaptation services, 23 college centres for technology transfer will be recognized as eligible college centres for technology transfer, and eligible expenditures incurred with these centres will entitle a corporation to this tax credit.

These centres are as follows:

- Centre collégial de transfert de technologie en biotechnologies (TRANSBIOTECH);
- Centre collégial de transfert technologique en musique et son (MUSILAB);
- Centre des matériaux composites;
- Centre d'innovation technologique agroalimentaire (Cintech AA inc.);
- Centre de géomatique du Québec inc.;
- Centre de métallurgie du Québec;
- Centre de production automatisée;
- Centre de recherche et de développement en agriculture du Saguenay–Lac-Saint-Jean;
- Centre de robotique industrielle inc.;
- Centre de technologie minérale et de plasturgie inc.;
- Centre de technologie des systèmes ordonnés inc. (CETSO);
- Centre des technologies textiles;
- Centre d'enseignement et de recherche en foresterie inc. (Sainte-Foy);
- Centre Microtech inc. (Sherbrooke);

- Centre national en électrochimie et en technologies environnementales inc.;
- Centre spécialisé de la mode du Québec;
- Centre spécialisé de technologie physique du Québec inc.;
- Centre spécialisé des pêches;
- Centre spécialisé en pâtes et papiers;
- Centre technologique en aérospatiale (CTA);
- EQMBO ENTREPRISES INC., Centre d'aide technique et technologique;
- Institut de chimie et pétrochimie;
- Institut des communications graphiques du Québec.

❑ Other application details

The amount of eligible expenditures of an eligible corporation, during a taxation year, must be reduced by the amount of any government assistance, any non-governmental assistance and any profit or benefit, attributable to such eligible expenditures, which the eligible corporation or partnership of which it is a member has received, is entitled to receive or may reasonably expect to receive, no later than the eligible corporation's deadline for filing its tax return for such year.

Assuming that an eligible expenditure regarding which a tax credit was granted has been reimbursed, in whole or in part, to the eligible corporation or to the partnership of which it is a member, the tax credit thus granted will be recovered by means of a special tax.

In addition, this tax credit may be applied against an eligible corporation's instalments for income tax and the tax on capital.

In order to claim this tax credit for a taxation year, an eligible corporation must include with its tax return for such year a form prescribed by the Minister of Revenue, as well as a copy of the receipt issued by the eligible business watch centre, the eligible liaison and transfer centre or the eligible college centre for technology transfer, as the case may be, for the eligible expenditures of the eligible corporation.

Lastly, the eligible expenditures for which a tax credit is claimed by an eligible corporation must have been paid at the time the tax credit is claimed.

❑ Application date

This measure will apply regarding eligible expenditures incurred by an eligible corporation after the day of the Budget Speech, for products or services offered by an eligible business watch centre, an eligible liaison and transfer centre or an eligible college centre for technology transfer, as the case may be, after that day.

2.1.7 Supplementary deduction of 25% for depreciation and capital tax holiday for new investments in certain sectors

Taxpayers who carry on a business in Québec can claim a depreciation deduction of 100% of the capital cost of certain assets used in Québec, without taking account of the half-year rule and the put-in use rules that generally apply under the tax legislation.

Briefly, assets that enable a taxpayer to claim this accelerated depreciation deduction are manufacturing or processing equipment, foreign ore processing equipment and universal electronic information processing equipment (computer hardware). Intangible assets, such as a patent, licence, permit, know-how or trade secret, acquired as part of a technology transfer, also enable the taxpayer to claim this deduction.

These assets must be used mainly to earn income from a business. In addition, they must begin to be used within a reasonable time following their acquisition and must be used solely in Québec for a minimum period. Lastly, in the case of manufacturing or processing equipment, foreign ore processing equipment and computer hardware, the assets must be new at the time they are acquired.

In addition, taxpayers who carry on their business partly in Québec and partly outside Québec can claim an additional deduction equal to 20% of the depreciation deduction claimed for such assets for a taxation year. The amount thus obtained for a year is then multiplied by the proportion for such year of business done outside Québec by the taxpayer to business done in Québec.

In the March 25, 1997 Budget Speech, a supplementary deduction of 25% for depreciation and a capital tax holiday for new investments in certain sectors were implemented to foster investment in Québec.

❑ Supplementary deduction of 25%

Taxpayers who acquired assets otherwise eligible for the accelerated depreciation deduction before January 1, 1999 could generally claim a supplementary deduction equal to 25% of the accelerated depreciation deduction claimed for a taxation year, thus bringing the total deduction to 125%. If a taxpayer did part of his business outside Québec during a taxation year, the amount of the supplementary deduction was divided by the proportion of his business done in Québec for such year, to enable him to benefit fully from this supplementary deduction.

❑ Capital tax holiday

The capital tax holiday consisted of a deduction, in calculating the paid-up capital of a corporation whose basic rate of tax on capital payable, for a taxation year, was 0.64%, depending on the eligible acquisition costs it incurred for an eligible asset.

A corporation could claim this deduction for eligible acquisition costs it incurred in a taxation year for the taxation year during which these costs were incurred and for the subsequent taxation year.

Briefly, eligible assets for the purpose of this capital tax holiday were manufacturing or processing equipment, foreign ore processing equipment and computer hardware, buildings used in the course of manufacturing or processing activities, buildings used in the course of processing foreign ore, as well as equipment and buildings used in the course of eligible activities relating to the tourism sector.

However, such assets had to be acquired by a corporation, or a partnership if applicable, prior to January 1, 1999, subject to the transitional periods stipulated in the tax legislation.

❑ Renewal of these measures

To continue fostering investments in Québec, these measures will be renewed until March 31, 2000.

Accordingly, the supplementary deduction of 25% for depreciation will apply regarding assets otherwise eligible for the accelerated depreciation deduction acquired after March 25, 1997 and before April 1, 2000, except:

- if they are acquired in accordance with a written undertaking contracted no later than March 25, 1997;
- if the construction of such assets, by the taxpayer or on his behalf, was under way on March 25, 1997.

In addition, the capital tax holiday will apply regarding assets acquired by a corporation, or by a partnership if applicable:

- after March 25, 1997 and before April 1, 2000, except:
 - if they are acquired in accordance with a written undertaking contracted no later than March 25, 1997;
 - if the construction of such assets, by the corporation, or the partnership if applicable, or on behalf of either of them, was under way on March 25, 1997;
- after March 31, 2000 and before April 1, 2001:
 - if they are acquired in accordance with a written undertaking contracted before April 1, 2000;
 - if the construction of such assets by the corporation, or the partnership if applicable, or on behalf of either of them, was under way before April 1, 2000.

Measures fostering technological innovation and the knowledge-based economy

2.1.8 Creation of the Centre national des nouvelles technologies de Québec

Support comparable to that available to corporations operating in the Cité du multimédia will be granted to eligible corporations which move into designated premises of the Centre national des nouvelles technologies de Québec (CNNTQ). Accordingly, such eligible corporations will be entitled to a refundable tax credit for wages paid to eligible employees for a period that may begin the day after the day of the Budget Speech and end on December 31, 2010. The rate of this tax credit will be 40%, for a maximum of \$15 000 per eligible employee, on an annual basis.

Except as specified below, the other application details of this new tax measure will be similar to those for the Cité du multimédia. More specifically, the transitional rules implemented with the release of ministère des Finances Information Bulletin 98-3 of June 23, 1998 concerning the prior conclusion of a lease and the effects of such conclusion will also apply to corporations that move into the CNNTQ.

This tax measure will come under the responsibility of the Bureau de développement de la nouvelle économie (BDNE), like the tax measures relating to CDTIs and the Cité du multimédia.

The BDNE's chief role will be to see that the government's objectives are achieved and to make recommendations to the Minister of Finance regarding eligible corporations, eligible activities and eligible employees.

□ Designated premises

The CNNTQ will be located in downtown Québec City, in an area bounded as follows:

- by rue Dorchester, from rue Saint-Joseph Est to rue Saint-Vallier Est;
- by rue Saint-Vallier Est, from rue Dorchester to rue de la Couronne;
- by rue de la Couronne, from rue Saint-Vallier Est to boulevard Charest Est;
- by boulevard Charest Est, from rue de la Couronne to boulevard Jean-Lesage;
- by boulevard Jean-Lesage, from boulevard Charest Est to rue de la Gare-du-Palais;
- by rue de la Gare-du-Palais, from boulevard Jean-Lesage to rue du Roi;
- by rue du Roi, from rue de la Gare-du-Palais to rue Saint-Dominique;
- by rue Saint-Dominique, from rue du Roi to rue Saint-François Est;
- by rue Saint-François Est, from rue Saint-Dominique to rue de la Chapelle;
- by rue de la Chapelle, from rue Saint-François Est to rue Saint-Joseph Est;
- by rue Saint-Joseph Est, from rue de la Chapelle to rue Dorchester.

In general, only premises located in buildings within this perimeter may be designated. However, an exception will be made for premises in the buildings located on the south side of boulevard Charest Est, between rue Monseigneur-Gauvreau and rue de la Couronne, which may also be designated.

The owners of the buildings concerned will be invited, through a request for proposals for rental space, to provide the BDNE with a list of available premises and details on leasing conditions.

The BDNE will see to it that, at any time, the total floor space of the designated premises does not exceed 18 600 square metres. However, responsibility for officially designating premises will rest with the Minister of Finance.

The ministère des Finances will soon release the precise technical designation of the CNNTQ's perimeter.

☐ Eligible activities

For the purposes of this fiscal measure, the expression "eligible activity" of an eligible corporation generally means an activity carried out by the eligible corporation in designated premises, relating to information technology and multimedia, in particular as applied to the arts and culture sectors, and regarding which an eligibility certificate has been obtained from the Minister of Finance.

2.1.9 Creation of new economy centres

The territorial scope of the fiscal measures inherent in the knowledge-based economy will be extended to every region of Québec through the creation of carrefours de la nouvelle économie (CNEs), or new economy centres.

Briefly, a CNE will be a group of a number of businesses carried on within an available area granted to each region. In a given region, the CNE may be established in more than one urban centre, depending on the region's needs.

The corporations that carry out eligible activities in a designated building may claim either the tax relief specifically applicable to CNEs, or that applicable to CDTIs if they carry out an innovative project there. Corporations that do not carry out an innovative project may claim, for a period beginning the day after the day of the Budget Speech and ending on December 31, 2010, a refundable tax credit applicable to the labour expenditures directly associated with carrying out an eligible activity linked to the knowledge-based economy. The rate of the tax credit will be 40%, for a maximum of \$15 000 per eligible employee, on an annual basis.

Like the new tax credit tied to the CNNTQ, this fiscal measure will come under the responsibility of the BDNE.

☐ Parameters of tax assistance

The parameters of the tax assistance available to a corporation that carries on a business, other than carrying out an innovative project, in a CNE will be similar to those applicable to corporations that carry on a business in designated premises of the Cité du multimédia. More specifically, the transitional rules applicable in the case of the Cité du multimédia will apply in the case of the CNE.

Corporations that carry out an innovative project in a CNE may claim the tax assistance applicable to CDTIs. More specifically, the transitional rules implemented with the publication of ministère des Finances Information Bulletin 97-6 on November 14, 1997 that enable a corporation to claim tax benefits for the period prior to moving into a CDTI will also apply.

☐ Eligible activities and designated buildings

The government intends to allow the regions substantial leeway regarding the choice of eligible activities and locations for the CNEs. The paper *An Integrated Fiscal Strategy for the Knowledge-Based Economy*, published by the government as part of this Budget Speech, provides a detailed description of the regional consultation process in this regard.

However, the Minister of Finance will ultimately be responsible for deciding on the eligibility of activities and designating buildings that can house CNEs.

2.1.10 Improved tax holiday for foreign training instructors working in CDTIs and other improvements applicable to CDTIs and the Cité du multimédia in Montréal

☐ Tax holiday for foreign training instructors extended to five years

Existing tax rules stipulate that foreign training instructors employed by a corporation that carries on a business in an CDTI may claim a deduction similar to that available to foreign researchers regarding the wages paid to them by the corporation for a period of two years as training instructors.

The tax holiday for foreign training instructors will henceforth be granted for a period of five years to an individual who, after the day of the Budget Speech, takes up his duties as a foreign training instructor with an eligible corporation, under an employment contract concluded after that day.

☐ Eligibility criteria eased for foreign training instructors

Foreign training instructors employed by an eligible corporation enjoy a tax exemption on the wages they are paid by the corporation. The tax exemption is granted to a foreign training instructor whose duties with the eligible corporation consist almost exclusively in providing training.

The requirement that a foreign training instructor carry out duties consisting almost exclusively in providing training is a constraint on corporations wishing to make use of foreign experts. Most often, persons who can provide expertise within a corporation work in fields that are not restricted to training. These workers may be management specialists in innovation, offshore commercialization, transfer of leading technology or innovation financing.

To make the tax holiday offered to foreign training instructors an attractive selling point for corporations, the tax legislation will be amended to extend eligibility to a foreign training instructor whose duties consist mainly of training activities.

This change will apply as of March 26, 1997.

☐ Eligibility for the tax credit on R&D wages

It was announced in the March 25, 1997 Budget Speech that a corporation carrying on its business in a CDTI would not be able to claim, for the three-year eligibility period for the tax credit for specialized equipment, any other tax credit otherwise stipulated in the tax legislation, regarding all expenditures and all expenses incurred during such period.

This restriction was subsequently eased to enable a corporation that carries on its business in a CDTI to claim refundable tax credits for R&D contracts concluded with an eligible public research centre, an eligible university entity or an eligible research consortium.

The tax legislation will again be amended to allow a corporation that carries on its business in a CDTI to claim refundable tax credits for R&D wages it incurs or for the consideration it pays under an R&D contract, according to the terms and conditions currently applicable.

Accordingly, such a corporation may elect, regarding the wages paid to one of its employees otherwise eligible for the tax credit on R&D wages, either the tax credit on R&D wages or the tax credit on the wages of eligible employees working in a CDTI.

These changes will apply regarding R&D wages incurred after March 25, 1997, or regarding a consideration paid under an R&D contract concluded after that date.

❑ Extension of the time allowed for obtaining certain eligibility certificates

Existing tax rules stipulate that eligibility certificates relating to eligible employees working in a CDTI during a taxation year, and to eligible specialized equipment acquired during a taxation year must be obtained by a corporation no later than the deadline for filing its tax return for the taxation year, i.e. six months after the end of the taxation year.

The tax legislation stipulates that a corporation will not be deemed to have paid an amount to the Minister of Revenue, as an instalment on its tax payable for a taxation year, regarding eligible wages and eligible specialized equipment, unless it files the required information using the prescribed form and the certificate mentioned therein, no later than 12 months after its filing deadline for such taxation year.

As a result, a corporation has 18 months after the end of its taxation year to claim refundable tax credits based on eligible wages and on eligible specialized equipment for such year.

Because of this general filing period of 18 months, the specific period of six months following the end of the taxation year for obtaining these certificates will be withdrawn. Accordingly, these certificates must be obtained no later than 18 months after the end of the taxation year for which the tax credits are claimed.

This change will apply as of March 26, 1997.

❑ Extension of the eligibility period for tax credits

Under existing tax rules, a corporation that carries on its business in a CDTI can claim, at least until December 31, 2008, a tax credit for eligible wages it incurs during the period concerned. A corporation that moves into the Cité du multimédia can claim a tax credit for eligible wages it incurs no later than December 31, 2008.

Corporations that move into the CNNTQ or into a CNE may claim a tax credit for eligible wages they incur no later than December 31, 2010.

To harmonize the eligibility periods for the tax credits of these four measures, the eligibility periods indicated above concerning corporations that carry on their business in a CDTI or in the Cité du multimédia will be extended for two years.

Accordingly, a corporation carrying on its business in a CDTI may claim, at least until December 31, 2010, a tax credit for eligible wages it incurs during the period concerned, while a corporation carrying on its business in the Cité du multimédia may claim a tax credit for eligible wages it incurs no later than December 31, 2010.

❑ Québec City CDTI

The Québec City CDTI, currently located at 390, rue Saint-Vallier Est, is inside the perimeter of the CNNTQ. The application context is similar to that of the Montréal CDTI, which is inside the Cité du multimédia and for which special rules were implemented with the release, on November 6, 1998, of Information Bulletin 98-7.

Similar rules will apply for the Québec City CDTI. Corporations that move into the Québec City CDTI will accordingly be able to claim tax assistance under the measures applicable to corporations that carry out eligible activities in the CNNTQ, or under those applicable to corporations that carry out an innovative project in a CDTI.

As a result of this situation, a substantial portion of the space initially planned for the Québec City CDTI will no longer be available for corporations wishing to claim tax assistance in this regard.

Accordingly, the current designation of the Québec City CDTI will be replaced by a general designation of spaces, not exceeding a total floor space of 7 500 square metres, that may be located in any designated premises of the CNNTQ. This general designation will not take effect until the day when all the space of the Québec City CDTI, i.e. 7 500 square metres, is leased to businesses eligible for either the CDTI, the CNNTQ, or the CNE program.

2.1.11 One-stop centre for fiscal measures supporting the knowledge-based economy

Currently, the administration of the refundable tax credit for the production of multimedia titles rests largely with the Société de développement des entreprises culturelles (SODEC), which is charged, in particular, with issuing certificates relating to multimedia titles eligible for the general component of this tax credit, as well as certificates to corporations eligible for the special component of this tax credit.

The major application parameters of the other fiscal measures relating to the knowledge-based economy, namely the measures relating to CDTIs, the Cité du multimédia, the CNNTQ and the CNEs, are the responsibility of the BDNE, which, in particular, is charged with making recommendations to the Minister of Finance concerning the various eligibility certificates. In addition, concerning these measures, the BDNE's major role is to monitor the achievement of the government's objectives in the knowledge-based economy.

To facilitate access to the various fiscal measures relating to the new information and communications technology sector, corporations will henceforth be able to deal with a one-stop centre to obtain the required eligibility certificates for all these fiscal measures.

More specifically, as of the day following the day of the Budget Speech, the BDNE will be responsible for making recommendations to the Minister of Finance relating to certification of multimedia titles eligible for the general component and to certification of corporations eligible for the special component of the refundable tax credit for the production of multimedia titles. SODEC will continue to administer this tax credit until May 31, 1999 regarding certification applications submitted to it no later than the day of the Budget Speech. In addition, the BCDTI advisory committee will cease exercising its duties as of the day of the Budget Speech.

2.2 Creation of the Montréal Foreign Trade Zone at Mirabel

Currently, the activities of Mirabel airport are limited to charter flights and air cargo, pursuant to the decision by Aéroports de Montréal to allow the transfer of regular international passenger flights from Mirabel to Dorval airport.

The Québec government has already indicated its concerns regarding the economic and social consequences of this decision on the Mirabel region and has bemoaned the lethargy of the federal government, which owns these airports and is responsible for air transportation in Canada. Mirabel airport is a first-class asset with enormous potential for contributing to Québec's economic development which should be exploited.

In this context, the Québec government has prepared an action plan to support strategic businesses that will contribute to Mirabel's development and help strengthen Greater Montréal's role as a hub for international trade. One element of this action plan involves granting tax benefits in the form of exemptions from income tax, the tax on capital and employer contributions to the Health Services Fund (HSF contribution). These tax benefits will be granted to corporations operating in international logistics, aircraft maintenance and repair, supplemental vocational training in aviation, and in light processing.

These corporations may also claim refundable tax credits for wages paid to eligible employees, other than employees working for a light processing business, as well as fees paid to a customs broker. They may also claim a refundable tax credit for acquisition costs or rent paid for eligible equipment. In addition, a tax exemption will be granted, for five years, to certain foreign specialists employed by such corporations.

The following sub-sections provide a detailed description of these tax assistance measures, in particular the type of eligible businesses, the certifications required, as well as the conditions and procedure to follow to obtain them and, lastly, certain general terms and conditions applicable to these measures.

The tax assistance will apply to the activities of an eligible business carried out within a territory located on the site of Mirabel airport. This territory will be referred to hereunder as the “foreign trade zone”.

The ministère des Finances will soon publish the precise technical designation of the foreign trade zone.

Other measures, in particular concerning the Société de développement de la Zone de commerce international de Montréal à Mirabel, are described in Section 2 of the *Additional Information on the Budgetary Measures*, dealing with expenditure measures.

2.2.1 Creation of the Société de développement de la Zone de commerce international de Montréal à Mirabel

To receive investors, study proposals and offer a multi-service one-stop facility for businesses established in the foreign trade zone, the government will create the Société de développement de la Zone de commerce international de Montréal à Mirabel (the Société de développement).

The Société de développement will be mandated, in particular, to see that the government's objectives are achieved and to make recommendations to the Minister of Finance regarding eligibility certificates of businesses, employees, customs brokerage contracts, equipment and foreign specialists.

Eligibility certificate applications must be addressed to the Société de développement, which will forward them to the Minister of Finance, who will have ultimate responsibility for certifying that the eligibility criteria are satisfied.

The Minister of Finance will set up the Société de développement within the next few weeks. In the meantime, corporations wishing to enjoy the tax benefits inherent in carrying on a business in the foreign trade zone may forward their certification application to the following address:

Ministère des Finances
12, rue St-Louis,
Bureau RC.18
Québec (Québec) G1R 5L3

In addition, consultations will be held with the main partners concerned by the implementation of the foreign trade zone. Following these consultations, the Minister of Finance will appoint the members of the board of directors of the Société de développement.

2.2.2 Eligible businesses

The Minister of Finance will issue an eligibility certificate for a business carried on by a corporation if the activities of such business, within the foreign trade zone, relate, in his view, to any of the following four sectors of activity: international logistics, aircraft maintenance and repair, supplemental vocational training in aviation, light processing. Such activities must account for at least 90% of the activities of the business carried out within the foreign trade zone. In addition, the Minister of Finance may issue an eligibility certificate for any other business carried on by a corporation within such zone when, in his view, the activities of such business are of particular interest for Québec's economy.

❑ International logistics

In general, logistics encompasses all the services and processes for the efficient control and management of movements of merchandise, in relation to the supply and distribution of such merchandise. In addition to the transportation and storage of merchandise, as well as the related sorting and handling, logistics may include various value-added services linked to their distribution, in particular order and inventory management, billing, quantity breakdown and consolidation, light assembly, labelling and display packaging for sale. These activities may be carried out by a person working for himself or for a third party.

For the purposes of the tax assistance measures, international logistics means activities carried out in the foreign trade zone and closely related to the international distribution of merchandise.

More specifically, the local market, i.e. Québec, must not be the source or final destination of more than 20% of the value of the merchandise, by category of merchandise processed. However, this percentage may be higher if the merchandise is not otherwise distributed in the course of carrying on businesses already present in Québec.

The transportation activities of a corporation offering air services, trucking services or rail services are specifically excluded. However, the ground activities of air carriers carried out in the foreign trade zone are eligible, provided such activities are directly related to the transshipment or storage of merchandise. For instance, the activities related to a sorting and transshipment centre of an express mail and parcel delivery business will generally be accepted.

In addition, the activities of international distribution centres, other than transportation, consisting of the storage and international distribution of goods of one or more manufacturers, which add value to the merchandise, will generally be accepted. Eligible activities of an international distribution centre include:

- order management;
- client billing and collection;
- handling of administrative and regulatory formalities for transportation (customs, sales taxes, etc.);
- inventory management;
- call centre operations;
- planning and consulting services for more efficient management of the supply, transportation, storage and distribution system.

In addition, if the activities of a logistics business include assembly activities, the local content, i.e. the value added through assembly and the cost of components bought in the foreign trade zone for assembly, must not exceed 50% of the total value of the assembled products.

☐ **Aircraft maintenance and repair activities**

Maintenance and repair of aircraft, navigation apparatus and ground service equipment carried out in the foreign trade zone are eligible activities.

☐ **Supplemental aviation training**

Training activities carried out in the foreign trade zone, which supplement those found in Québec but outside the zone, or which contribute chiefly to training flight or airport personnel who do not reside in Québec, are eligible activities.

For this purpose, flight personnel will include pilots, flight attendants and flight mechanics, while airport personnel will include firefighters, de-icing personnel, air traffic controllers, investigators, flight security managers and ramp agents.

☐ **Light processing**

The manufacturing of products will be eligible if the local content, i.e. the value added through manufacturing and the cost of components bought in the foreign trade zone for manufacturing, does not exceed 50% of the total value of the manufactured products.

In addition, one or more of the following components must be key factors for the location of such business in the foreign trade zone:

- proximity to an international airport;
- a duty-free zone;
- ready access to the four major transportation modes;
- large location surface area.

Also, manufacturing activities will be eligible only if, in the view of the Minister of Finance:

- they satisfy the airport installations development objective;
- they contribute to Québec's economic development;
- they comply with the requirements of international trade agreements.

☐ Conditions and procedure to follow to obtain an eligibility certificate for a business

In general, before the Minister of Finance can issue an eligibility certificate for a business carried on by a corporation, the corporation must submit a business plan to the Société de développement showing that the activities of the business will complement the activities of businesses already carried on elsewhere in Québec and that these activities will create jobs.

For this purpose, the business plan must show that these activities constitute a new establishment or expansion project in special niches, substantially distinct, if applicable, from those of businesses in the same activity sector already carried on otherwise in Québec. More specifically, it must show that the activities constitute new activities of such corporation, carried out after the day of the Budget Speech, or that they constitute a significant expansion of current activities of the business carried on by the corporation, carried out after that day.

If the activities described in the business plan constitute an expansion of the current activities of a business already carried on in Québec outside the foreign trade zone on the day of the Budget Speech, the corporation must undertake not to move the activities it carries out outside the zone in Québec to the foreign trade zone.

In the case of an expansion of activities of a business already carried on in the foreign trade zone on the day of the Budget Speech, the business plan must show that such expansion goes well beyond an expansion due to a slight increase in demand in the normal course of activities of such business. Accordingly, the corporation must undertake not to transfer its other activities in the foreign trade zone, nor reduce the activities it carries out, in Québec, outside the zone.

As to the condition relating to job creation, the business plan must show that the payroll relating to the eligible business carried on by the corporation will reach, within a reasonable period after the year in which the eligibility certificate of the business is issued:

- at least \$400 000, in the case of new activities of the corporation;
- at least \$400 000 more than the payroll relating to such business immediately prior to the effective date of the eligibility certificate of the business, in the case of an expansion of the current activities of the business carried on by the corporation.

The Société de développement will make a recommendation to the Minister of Finance concerning the eligibility certificate of the business.

2.2.3 Tax benefits granted to corporations

☐ Tax holiday concerning income tax, the tax on capital and the HSF contribution

In general, the tax legislation will be amended so that a corporation that carries on an eligible business in the foreign trade zone may claim the following tax benefits:

- a tax exemption regarding the income of the corporation arising from such eligible business;
- an exemption from the tax on capital in relation to the portion of the corporation's paid-up capital reasonably attributable to the operation of such eligible business;
- an exemption from HSF contributions regarding wages paid to the employees of such eligible business who carry out at least 75% of their duties within the foreign trade zone.

More specifically, a corporation may claim, in relation to the operation of a business for which an eligibility certificate has been issued, a tax exemption regarding the income arising from such business, after the effective date of such certificate and before January 1, 2010., for a taxation year, including December 31, 2009, the corporation may claim an income tax exemption, for such taxation year, proportional to the number of days in such taxation year before January 1, 2010.

A corporation may also claim, in relation to the operation of a business for which an eligibility certificate has been issued, an exemption from the tax on capital regarding the portion of the corporation's paid-up capital reasonably attributable to the operation of such business, after the effective date of such certificate and before January 1, 2010., for a taxation year, including December 31, 2009, the corporation may claim an exemption from the tax on capital, for such taxation year, proportional to the number of days in such taxation year before January 1, 2010.

Lastly, a corporation that carries on a business for which an eligibility certificate has been issued may claim an exemption from HSF contributions for wages paid, after the effective date of such certificate and before January 1, 2010, to employees of such eligible business who carry out at least 75% of their duties within the foreign trade zone.

More specifically, the effective date of an eligibility certificate of a business may not be earlier than the date of the Budget Speech.

☐ Refundable tax credit on the wages of eligible employees

A corporation that carries on an eligible business within the foreign trade zone may also claim a refundable tax credit for wages paid to eligible employees.

- **Eligible employee**

The expression "eligible employee" of a corporation means an employee for whom the corporation obtains an eligibility certificate from the Minister of Finance.

To qualify as an eligible employee, at least 75% of the employee's duties must consist of work relating to an activity of a business for which the corporation has obtained an eligibility certificate, with the exception of a light processing business.

In addition, the employment contract of an eligible employee must stipulate at least 26 hours of work a week, for a minimum of 40 weeks, and the employee must not be a specified shareholder of the corporation.

For the purposes of this tax credit, work relating to an eligible activity will, in particular, exclude the duties inherent in administrative services or customer services.

The corporation must provide the Société de développement with a list of persons who may be eligible employees. The Société de développement will make a recommendation to the Minister of Finance concerning the eligibility certificate of such employees.

- **Amount of the tax credit**

In general, a corporation that carries on an eligible business within the foreign trade zone will be entitled to this tax credit for wages incurred in relation to eligible employees after the effective date of the eligibility certificate issued for such employees.

In this regard, the effective date of an eligibility certificate of an employee may not be earlier than the date of the Budget Speech.

More specifically, regarding the wages incurred for an eligible employee before January 1, 2001, the amount of the tax credit will be equal, for a taxation year, to 40% of such wages incurred during such year. However, the tax credit will be capped at \$15 000 per employee, on an annual basis.

Concerning the wages incurred for an eligible employee during the period between December 31, 2000 and January 1, 2004, the amount of the tax credit will be equal, for a taxation year, to 30% of such wages incurred during such year. However, this tax credit will be capped at \$12 000 per employee, on an annual basis.

As for the wages incurred for an eligible employee during the period between December 31, 2003 and January 1, 2010, the amount of the tax credit will be equal, for a taxation year, to 20% of such wages incurred during such year. However, this tax credit will be capped at \$8 000 per employee, on an annual basis.

- **Other application details**

The wages entitling the taxpayer to this tax credit must be reduced by the amount of any government assistance, any non-governmental assistance and any profit or benefit, attributable to such wages, in accordance with the usual rules.

Assuming that a wage expenditure for which a tax credit was granted has been reimbursed to the corporation, the tax credit thus granted will be recovered by means of a special tax.

A corporation that carries on an eligible business and wishes to benefit from this tax credit, for a taxation year, must file with the Minister of Revenue, no later than one year after the deadline for filing its tax return for such year, a form prescribed by the Minister of Revenue, as well as a copy of the eligibility certificate issued in regard to the eligible employees for whom it claims a tax credit.

The wages for which a tax credit is claimed by a corporation must have been paid by the time the tax credit is claimed.

☐ Refundable tax credit relating to an eligible customs brokerage contract

A corporation that carries on an eligible business within the foreign trade zone may also claim a refundable tax credit for fees incurred under an eligible customs brokerage contract.

- **Eligible customs brokerage contract**

The expression “eligible customs brokerage contract” means a contract for which the corporation obtains an eligibility certificate from the Minister of Finance.

In this regard, the corporation must provide the Société de développement with a copy of the contract that may constitute an eligible customs brokerage contract. The Société de développement will make a recommendation to the Minister of Finance concerning the eligibility certificate for the contract.

The contract must be concluded with a customs broker at arm's length with the corporation. Under the contract, the customs broker must provide the corporation with services in this regard, before January 1, 2010, in the course of the activities of the eligible business carried on by the corporation.

- **Amount of the tax credit**

In general, a corporation that carries on an eligible business within the foreign trade zone will be entitled to this tax credit for fees incurred in relation to an eligible customs brokerage contract after the effective date of the eligibility certificate issued for such contract.

More specifically, the effective date of an eligibility certificate of a customs brokerage contract may be made retroactive to the date such contract is concluded, but may not be earlier than the date of the Budget Speech.

More particularly, concerning the fees incurred for an eligible customs brokerage contract before January 1, 2001, the amount of the tax credit will be equal, for a taxation year, to 40% of such fees incurred during such year. However, this tax credit will be capped at \$30 000 on an annual basis.

Concerning the fees incurred for an eligible customs brokerage contract during the period between December 31, 2000 and January 1, 2004, the amount of the tax credit will be equal, for a taxation year, to 30% of such fees incurred during such year. However, this tax credit will be capped at \$24 000 on an annual basis.

As for the fees incurred for an eligible customs brokerage contract during the period between December 31, 2003 and January 1, 2010, the amount of the tax credit will be equal, for a taxation year, to 20% of such fees incurred during such year. However, this tax credit will be capped at \$16 000 on an annual basis.

- **Other application details**

The fees entitling the taxpayer to this tax credit must be reduced by the amount of any government assistance, any non-governmental assistance and any profit or benefit attributable to these fees, in accordance with the usual rules.

Assuming that such fees for which a tax credit was granted have been reimbursed to the corporation, the tax credit thus granted will be recovered by means of a special tax

A corporation that carries on an eligible business and wishes to benefit from this tax credit, for a taxation year, must file with the Minister of Revenue, no later than one year after the deadline for filing its tax return for such year, a form prescribed by the Minister of Revenue as well as a copy of the eligibility certificate issued in regard to the eligible customs brokerage contract for which it claims a tax credit.

The fees regarding which a tax credit is claimed by a corporation must have been paid by the time the tax credit is claimed.

- ❑ **Refundable tax credit for the acquisition or leasing of eligible equipment**

A corporation that carries on an eligible business within the foreign trade zone may also claim a refundable tax credit for eligible equipment acquired or leased in the course of carrying on such business.

- **Eligible equipment**

The expression “eligible equipment”, if it refers to an acquisition, means a depreciable fixed asset, other than an intangible asset, for which the corporation obtains an eligibility certificate. To be eligible, this equipment must satisfy the following conditions:

- before being acquired by the corporation, it has not been used for any purpose, nor acquired to be used or leased for any purpose whatsoever;
- it must be used in the foreign trade zone exclusively or almost exclusively to earn income from an eligible business;
- it must begin to be used by the corporation within a reasonable time after being acquired.

The expression “eligible equipment”, if it refers to a lease, means an asset for which the corporation obtains an eligibility certificate. To be eligible, such equipment must satisfy the following conditions:

- before being leased by the corporation, it has not been used for any purpose, or acquired to be used or leased for any purpose whatsoever;
- it must be used in the foreign trade zone exclusively or almost exclusively to earn income from an eligible business;
- it must begin to be used by the corporation within a reasonable time after the start of the lease.

The corporation must provide the Société de développement, along with the business plan it must submit for the eligibility certificate of the business it carries on, the relevant data concerning the assets it plans to acquire or lease to set up or expand this business.

The Société de développement will make a recommendation to the Minister of Finance concerning the eligibility certificate of these assets. In this regard, the recommendation concerning the eligibility certificate of a leased asset will also bear on the eligible lease term of the asset.

With respect to the acquisition of eligible equipment, such assets must be acquired by the corporation, before January 1, 2010, within a reasonable time after the effective date of the the eligibility certificate.

With respect to the leasing of eligible equipment, such assets must be leased by the corporation during the eligible lease period. The expression “eligible lease period” means the lease period for which the Minister of Finance issues an eligibility certificate.

Eligible equipment, whether acquired or leased, does not include office furniture or equipment for general use such as photocopiers and fax machines. Similarly, the equipment used by employees whose duties are of an administrative or support nature does not constitute eligible equipment.

In addition, any aircraft, vehicle or rolling stock, with the exception of equipment intended for the transshipment of merchandise or the handling of merchandise within a warehouse, hangar or assembly shop, does not constitute eligible equipment.

- **Amount of the tax credit**

In general, a corporation that carries on an eligible business will be entitled to this tax credit, in relation to expenses incurred to acquire eligible equipment or fees paid to lease eligible equipment, as the case may be, after the day of the Budget Speech, in accordance with an agreement concluded after such date for such equipment and for which an eligibility certificate has been issued.

With respect to the acquisition of eligible equipment, the amount of the tax credit will be equal, for a taxation year, to 25% of the expenses incurred by the corporation in the year to acquire such eligible equipment and which it includes in the capital cost of the asset.

With respect to the leasing of eligible equipment in a taxation year, the amount of the tax credit will be equal to 25% of the fees paid by the corporation in the year for the eligible lease period to lease and use such eligible equipment during such year.

- **Other application details**

The expenses incurred by the corporation to acquire eligible equipment or the rent it pays to lease eligible equipment must be reduced by the amount of any government assistance, any non-governmental assistance and any profit or benefit attributable to such expenses or rents, as the case may be, in accordance with the usual rules.

Assuming that such expenses incurred or fees paid by the corporation, as the case may be, for the acquisition or lease of eligible equipment for which a tax credit was granted have been reimbursed to the corporation, the tax credit thus granted will be recovered by means of a special tax.

A corporation that carries on an eligible business and wishes to benefit from this tax credit, for a taxation year, must file with the Minister of Revenue, no later than one year after the deadline for filing its tax return for such year, a form prescribed by the Minister of Revenue as well as a copy of the eligibility certificate issued in regard to the eligible equipment for which it claims a tax credit.

2.2.4 General application details

□ Partnership

A corporation which is a member of a partnership that carries on an eligible business will also benefit from the tax assistance measures mentioned above, with the necessary adaptations.

- **Tax holiday concerning income tax, the tax on capital and the HSF contribution**

A corporation which is a member of a partnership that carries on an eligible business will enjoy an exemption from income tax and the tax on capital, for a taxation year, of the corporation that includes the date of the end of the fiscal year of the partnership, regarding its share of the income from the operation of such eligible business by the partnership or the share of its paid-up capital that is reasonably attributable to the operation of such eligible business.

However, if the fiscal year of the partnership includes December 31, 2009, the member corporations of the partnership may claim an exemption from income tax and the tax on capital, for their taxation year during which such fiscal year ends, regarding their share of the income from the operation of such eligible business by the partnership or the share of their paid-up capital which is reasonably attributable to the operation of such eligible business, proportional to the number of days in such fiscal year of the partnership before January 1, 2010.

Furthermore, such partnership will be exempt from HSF contributions for wages paid, before January 1, 2010, to the employees of such eligible business who carry out at least 75% of their duties within the foreign trade zone.

- **Refundable tax credits**

If the eligible business is carried on by a partnership, eligibility for a refundable tax credit will be determined with reference to the partnership, but the tax credit will be granted to each member corporation of the partnership, for their taxation year that includes the date of the end of the fiscal year of the partnership, depending on their respective share of the income or loss of such partnership for such fiscal year.

However, if the fiscal year of the partnership includes December 31, 2009, eligibility for a refundable tax credit will also be determined with reference to the partnership, but the tax credit will be granted to each member corporation of the partnership, for its taxation year which includes the date of the end of such fiscal year, depending on its share of the income or loss of such partnership for such fiscal year:

- with respect to the refundable tax credit on wages, solely for the wages the partnership incurred, before January 1, 2010, for eligible employees;
- with respect to the refundable tax credit relating to an eligible customs brokerage contract, solely for fees the partnership incurred, before January 1, 2010, for an eligible customs brokerage contract;
- with respect to the refundable tax credit relating to the acquisition or lease of eligible equipment, solely for expenses incurred for the acquisition of eligible equipment before January 1, 2010, or fees paid in relation to the lease and use of such eligible equipment during the eligible lease period.

❑ Excluded corporations

The following corporations may not claim, for a taxation year, the tax benefits relating to carrying on an eligible business in the foreign trade zone:

- a corporation which is exempt from tax for such year;
- a Crown corporation or a wholly-owned subsidiary of such corporation;
- a corporation governed, during the year, by statute constituting a labour-sponsored fund.

❑ Separate accounting

Access to the tax assistance will be conditional on special requirements concerning the presentation of financial information. Accordingly, a corporation will have to keep separate books for the business or portion of the business regarding which an application for an eligibility certificate is submitted.

More specifically, the corporation will have to keep separate books for such business or such portion of the business as of the effective date of the eligibility certificate of the business or portion of the business.

❑ Revocation of an eligibility certificate

The Minister of Finance will be empowered to revoke an eligibility certificate if the conditions which justified issuing such certificate are no longer satisfied.

An eligibility certificate revoked by the Minister of Finance will be null as of the date indicated by the Minister.

2.2.5 Tax exemption for certain foreign specialists

Existing tax legislation stipulates that a foreign individual specializing in eligible international transactions, employed by a corporation that operates an international financial centre (IFC), may claim a total exemption from income tax for a certain period.

The tax legislation will be amended to introduce rules similar to those applicable to foreign specialists employed by an IFC to enable a foreign specialist employed by a corporation carrying on an eligible business to claim a total exemption from income tax for five years.

The expression "foreign specialist" means an individual who, after the day of the Budget Speech, acts as an employee in the foreign trade zone for a corporation carrying on an eligible business.

The corporation must submit an application for an eligibility certificate for such individual no later than February 28 of the year following the year for which the individual claims an exemption from income tax.

For this purpose, the corporation will have to provide the Société de développement with a list of persons who may qualify as foreign specialists of the eligible business. The Société de développement will make a recommendation to the Minister of Finance concerning the eligibility certificate of such foreign specialists.

More specifically, a foreign specialist means an individual who is a manager or professional with widely recognized expertise in his field. In addition, the individual:

- must not be a resident of Canada immediately prior to taking up his duties in the foreign trade zone;
- must work, from that moment, almost exclusively for the corporation on a continuous basis in the course of the operation of the eligible business in the foreign trade zone;
- must, as an employee, carry out duties for the corporation consisting almost exclusively of activities of a business for which such corporation has obtained an eligibility certificate.

□ Application date

These measures will apply as of the day following the day of the Budget Speech.

2.3 Measures concerning culture

2.3.1 Introduction of refundable tax credits for the production of sound recordings and for musical productions

For many years, the government has supported the development of cultural industries with a series of refundable tax credits that sustain the activities of Québec businesses operating in film, television and dubbing. By providing these businesses with a stable funding base that stimulates their growth, these tax credits have helped to better consolidate this sector of our economy and bolster job creation.

On October 25, 1997, the then Minister of Culture and Communications, Louise Beaudoin, mandated a task force to study Québec's recording and performance industry and submit recommendations to formulate and implement a concerted development strategy for Québec music. In its final report, the task force recommended developing a tax credit for the production of recordings and shows. The purpose of the tax credit would be to:

- foster consolidation in the industry by enabling it to maintain or increase its output;
- reduce the burden of production costs businesses bear with a view to encouraging their capitalization and enabling them to come up with new financial resources to improve the creation, pre-production, marketing and promotion stages;
- enable the production of big-budget recordings and shows;
- support the creation of more diversified and more adequately paid jobs.

To further support the activities of businesses working in the recording and performance industry, two new refundable tax credits will be introduced.

In general, the application details of these two tax credits are similar to those of the refundable tax credit for Québec film and television productions, subject to the specific features described below. Accordingly, an eligible corporation may, under certain conditions, claim a refundable tax credit equal to 33 1/3% of the labour expenditures it incurs to produce an eligible sound recording or an eligible show. However, the expenditures entitling a corporation to these two tax credits may not exceed 45% of the production expenses of the sound recording or show, as the case may be, so that the tax assistance may not exceed 15% of such expenses. However, the tax credit granted for an eligible sound recording or an eligible show may not exceed \$50 000 or \$300 000 respectively.

☐ Tax credit for the production of sound recordings

• Eligible corporation

For the purposes of the tax credit for the production of sound recordings, an “eligible corporation”, for a taxation year, means a corporation which, for the year, is a recording firm recognized by the Société de développement des entreprises culturelles (SODEC) or a corporation that has concluded an agreement to use the sound recording with a recording firm thus recognized and which, during the year, has an establishment in Québec and carries on a sound recording production business here. However, the following corporations may not claim this tax credit for a year:

- a corporation which, at any time during the year or in the 24 months preceding that year, is controlled, directly or indirectly, in any way whatsoever, by one or more persons who do not reside in Québec;
- a corporation which is exempt from tax for such year or which is controlled, directly or indirectly, in any way whatsoever, by one or more corporations that are exempt from tax at any time during such year.

To be recognized for a taxation year, a recording firm must satisfy the following conditions:

- have, at any time during the taxation year or the 365 days preceding the beginning of such year, a minimum of five sound recordings distributed, under any of its labels, in the retail trade;
- have marketed, in the taxation year or the 730 days preceding the beginning of such year, a minimum of three new sound recordings under any of its labels;
- have, at any time, a distribution agreement in force, for all its labels, with one or more distributors.

• Eligible sound recording

A sound recording may entitle a corporation to the refundable tax credit provided the SODEC has issued a certificate for it according to which it satisfies the following criteria:

- the production of the sound recording began after the day of the Budget Speech;
- the sound recording, on a physical medium, consists of at least 60% musical content (based on the timing);

- the sound recording satisfies certain Québec content criteria stipulated by a point scale. Under this point scale, a sound recording must obtain a minimum of three points out of a maximum of five points based on the place of residence of the creative staff participating in the production of the sound recording, at the end of the taxation year preceding the start of recording work.

TABLE 1.8

POINT SCALE

Creative staff	Points awarded if a resident of Québec
Author(s) of the lyrics ¹	1
Composer(s) of the music ^{1, 2}	1
Director(s) ¹	1
Principal artist ³	2

- 1 If more than one person hold this position, the point is awarded only if at least half of such persons are residents of Québec at the end of the taxation year preceding the beginning of the recording work.
- 2 In the case of an instrumental recording, the composer's position counts for two points and no point is awarded for the author of the lyrics. In this situation, if more than one person holds the composer's position, the two points are awarded only if at least half of these people are residents of Québec at the end of the taxation year preceding the beginning of the recording work.
- 3 The principal artist will be determined by taking the following items into account: remuneration, credit on the case and length of the artist's performance.

- 75% of all amounts paid for the production of the sound recording, other than the remuneration paid to the persons covered by the point scale, was paid to persons residing in Québec at the end of the taxation year which preceded the beginning of the recording work or to corporations which had an establishment in Québec for such year;
- the sound recording was not made for teaching or instructional purposes, or for corporate purposes, and is neither an audio-book nor a bank of sound effects;
- the sound recording was produced by a recognized recording firm or by a corporation that has concluded an agreement to use the sound recording with a recognized recording firm;
- the sound recording does not entitle the taxpayer to tax credits for film or television production.

- **Eligible production expenses**

Eligible production expenses of a corporation for a taxation year, regarding an eligible sound recording, consist of the following items:

- the portion of production expenses, other than production fees and administration expenses, provided they are reasonable in the circumstances and included in the cost of production, the cost or the capital cost, as the case may be, of such eligible sound recording for the corporation, that have been incurred in the year to carry out the stages of production ranging from design to the making of the master tape, and including the design costs of the case. More specifically, these stages may not include activities relating to mastering the sound recording, pressing its discs or recording its tapes, its promotion, distribution and dissemination;
- an amount relating to production fees and administration fees that does not exceed 15% of the expenses covered in the preceding sub-paragraph.

If necessary, eligible production expenses must be reduced by the amount of any government or non-governmental assistance which the corporation has received, is entitled to receive or may reasonably expect to receive in their regard, with the exception of the following amounts:

- the amount of financial assistance granted by the Conseil des arts et des lettres du Québec, by SODEC and by the Canada Council;
- the amount of financial assistance granted by FACTOR MUSICACTION Canada, a private sector consortium consisting of FACTOR, the *Foundation to Assist Canadian Talent on Records*, which supports the anglophone segment of the sound recording industry, and MUSICACTION, its counterpart for the francophone segment of the industry.

- **Eligible labour expenditures**

For the purposes of this new tax credit, eligible labour expenditures, for a taxation year, relating to an eligible sound recording consist of the total of the following amounts, provided they are reasonable in the circumstances:

- wages or salaries directly attributable to the production of the eligible sound recording, which the corporation incurred in the year, after the day of the Budget Speech, in relation to the stages of production of such recording ranging from the design to the making of the master tape, including the design of the case, and which the corporation paid to its eligible employees during the year or within 60 days following the end of the year;

- the portion of remuneration, other than wages or salary, incurred by the corporation during the year, after the day of the Budget Speech, which is directly attributable to the production of the eligible sound recording, which relates to stages of the production covered in the preceding sub-paragraph and which it paid during the year or within the 60 days following the end of the year:
 - either to an eligible individual, provided that this portion of remuneration is reasonably attributable to the supply of services personally provided in Québec by the latter, or to the wages of the eligible employees of the individual who supplied the services in Québec as part of the production of the eligible sound recording;
 - or to a corporation which has an establishment in Québec, which is not a corporation covered by the following sub-paragraph, provided that this portion of the remuneration is reasonably attributable to the wages of the eligible employees of such corporation who supplied the services in Québec as part of the production of the eligible sound recording;
 - or to a corporation which has an establishment in Québec all of whose issued capital stock, except the qualification shares, belong to an eligible individual and whose activities consist mainly in supplying the services of this individual, provided that this portion of the remuneration is reasonably attributable to the supply of services he provided in Québec as part of the production of the eligible sound recording;
 - or to a partnership which carries on a business in Québec and has an establishment there, provided that this portion of the remuneration is reasonably attributable either to the supply of services provided in Québec as part of the production of the eligible sound recording by an eligible individual who is a member of the partnership, or to the wages of the eligible employees of the partnership who supplied services in Québec as part of the production of the eligible sound recording.

For this purpose, an “eligible employee” and an “eligible individual” mean a taxpayer who is a resident of Québec at the end of the calendar year preceding the year during which the recording work begins.

More specifically, the legislation will stipulate that the labour expenditures incurred for mastering the eligible sound recording, pressing the discs or recording the tapes, promoting the recording, or distributing or disseminating it may not entitle a corporation to the tax credit.

- **Calculation of the tax credit**

The tax credit an eligible corporation may claim, for a taxation year, for an eligible sound recording will correspond to 33 1/3% of its eligible labour expenditures for the year. However, such expenditures may not exceed 45% of the eligible production expenses of the sound recording. In addition, the tax credit for an eligible sound recording may not exceed \$50 000. If the sound recording is co-produced, the cap of \$50 000 will have to be divided among the co-producers according to their respective share of the production expenditures for the purposes of calculating the tax credit each of them may claim.

In addition, the amount of this tax credit may be applied against the instalments, if any, which the eligible corporation must pay.

To be entitled, for a taxation year, to the tax credit for a given sound recording, the corporation that produces the recording must include with its tax return for such year a certificate issued by SODEC to the effect that such recording satisfies the criteria described in the section entitled "Eligible sound recordings".

- **Application date**

This measure will apply regarding an eligible sound recording for which the production begins after the day of the Budget Speech.

☐ **Tax credit for musical productions**

- **Eligible corporation**

For the purposes of the tax credit for musical productions, the notion of eligible corporation will be defined in the same way as for the tax credit for the production of sound recordings, with the necessary adaptations. Accordingly, to be eligible for the tax credit for musical productions, for a taxation year, an eligible corporation must, in particular, carry on a musical production business during the year.

- **Eligible shows**

A musical production will entitle a taxpayer to the refundable tax credit, provided SODEC has issued a certificate to the effect that the production satisfies the following criteria:

- the production of the show begins after the day of the Budget Speech;
- at least 75% of the show consists of songs or instrumental music (based on timing);

- the show satisfies the same Québec content criteria (point scale,⁶ 75% rule) as those enabling a sound recording to qualify for tax assistance;
- the show is not an excluded show. For this purpose, an excluded show is a circus performance, water or ice show, a benefit show or a gala;
- the show is produced by a corporation which has given at least five public performances of one or more eligible shows which it produced or co-produced during the taxation year for which it claims a refundable tax credit for musical productions or during the 365 days preceding the start of such taxation year;
- the production of the show and its operation are under the control of an eligible corporation. For this purpose, a corporation will be considered as having control of the production and running of a show when, alone or, as the case may be, with other corporations, it assumes or shares responsibility from the artistic, technical and financial standpoints. In particular, this means that the corporation will be responsible for pre-production of the show, its staging, marketing and promotion.

- **Eligible production expenses**

For the purposes of the tax credit for musical productions, the notion of eligible production expenses will be the same as for the tax credit for the production of sound recordings. However, for the purposes of calculating eligible production expenses, such expenses will include only the expenses incurred to produce an eligible show from its pre-production to the end of a period of three full years beginning on the day of the first public performance. More specifically, the tax legislation will stipulate that the expenses incurred for the distribution of the show and its promotion will not be considered eligible production expenses. This will also apply for expenses incurred in relation to private performances of the eligible show.

Eligible production expenses must be reduced by the amount of any government or non-governmental assistance the corporation has received, is entitled to receive or may reasonably expect to receive for them, with the exception of the amount of financial assistance provided by the Conseil des arts et des lettres du Québec, by SODEC or by the Canada Council.

6 The point scale will be identical to that applicable in the case of the tax credit for the production of sound recordings, with the exception of the director's position, which will be replaced by that of musical or artistic director.

- **Eligible labour expenditures**

For the purposes of the tax credit for musical productions, the notion of eligible labour expenditures will be the same as for the purposes of the tax credit for the production of sound recordings, with the necessary adaptations. Accordingly, for this purpose, the production stages for which the tax credit may be granted range from pre-production of the show to its public performance, for a period of three full years beginning the day of its first public performance. More specifically, it will be stipulated that the labour expenditures incurred for the distribution of the show and its promotion will not entitle a taxpayer to the tax credit for musical productions. This will also apply to labour expenditures incurred in relation to private performances of the eligible show.

- **Calculation of the tax credit**

The details of calculating and obtaining the tax credit for musical productions will be the same as those of the tax credit for the production of sound recordings, with the exception of the cap on the tax credit, which will be \$300 000 rather than \$50 000.

- **Application date**

This measure will apply regarding an eligible show whose production begins after the day of the Budget Speech.

TABLE 1.9

**REFUNDABLE TAX CREDITS FOR THE PRODUCTION
OF SOUND RECORDINGS AND FOR MUSICAL PRODUCTIONS**

Type of production	Nominal rate (as a % of labour expenditures)	Effective rate¹ (as a % of production cost)	Cap on tax credit per production (in thousands of dollars)
Sound recording	33⅓	15	50
Musical production	33⅓	15	300

¹ The effective rate is obtained by multiplying the nominal rate of the tax credit, expressed as a function of labour expenditures, by the cap rate, expressed as a function of production costs.

2.3.2 *Simpler application of the refundable tax credit for dubbing*

On December 18, 1997, a new refundable tax credit to support dubbing activities in Québec was announced.⁷ Through this measure, an eligible corporation which dubs an eligible production in Québec may claim a refundable tax credit equal to 33 1/3% of the labour expenditures it incurs for this purpose. However, the labour expenditures that entitle the taxpayer to this tax credit may not exceed 45% of the production expenses of the dubbing services of the eligible corporation, so that the tax assistance is limited to 15% of such expenses.

During the months following the announcement of this measure, the Québec dubbing industry advised the government that it would be desirable to make changes to some rules of the tax credit for dubbing to take better account of the business situation of businesses in this sector. According to industry representatives, the rules of the refundable tax credit for Québec film and television productions, that were used as a model in formulating the rules of the new tax credit for dubbing lead to significant practical difficulties. Accordingly, to enable dubbing businesses to benefit from the assistance promised by the government, it appears necessary to simplify the rules for calculating the tax credit for dubbing.

Two proposed changes submitted by the dubbing industry were examined and, following analysis, it has been decided to act on them since they have the dual advantage of greatly simplifying the application of the tax credit for dubbing for businesses in this sector, without raising the tax cost of this measure for the government. These changes, which will be made retroactive to when this measure began to apply, will consist in:

- replacing the base of the tax credit, which is currently geared to the notion of labour expenditure;
- replacing the cap, which is currently based on the amount of production expenses of dubbing services.

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❑ Replacement of the notion of labour expenditure as the base of the tax credit

Under the existing rules, the base of the tax credit for dubbing rests on the notion of labour expenditure. In general, this notion covers all labour expenditures included in the production expenses of dubbing services of the eligible corporation, provided they are reasonable in the circumstances. This definition requires that the eligible corporation claiming the tax credit for dubbing retrace, for each dubbing contract it carries out, the expenditures relating to it. Since accounting by dubbing contract does not correspond to the practices of this industry, applying these rules would impose a relatively heavy burden on dubbing companies.

Accordingly, to simplify the application of the tax credit for dubbing, the expenditures entitling the taxpayer to it will only be those relating to certain services inherent in the dubbing process that are generally provided by self-employed workers or by corporations acting as sub-contractors. Such expenditures will be easily identified by the corporation claiming the tax credit for dubbing since it will generally be billed for such services. The expenditures that will thus be eligible will be those relating to the following services:

- the performance of actors;
- adaptation, i.e. translation of dialogue;
- detection, i.e. writing of synchronized dialogue, using conventional signs, of all the dialogue and mouth movements of all the characters of the original version;
- calligraphy/grid/typing, i.e. recopying the adapted text, taking into account the synchronization indications from detection, to be read by the actors during the recording of the dubbed version;
- stage management, i.e. directing the actors during the recording;

The total consideration paid by the eligible corporation for such services will be included in calculating the expenditures entitling the taxpayer to the tax credit for dubbing, provided such services are provided in Québec.

Accordingly, when one of these services is provided in Québec by an employee of the eligible corporation, the amount considered in the calculation of the tax credit will correspond to the wage paid to such employee in consideration of the service he has thus provided as part of the dubbing. In the most common situation, namely when one of these services is provided in Québec by a person or a partnership, other than an employee of the eligible corporation, the amount considered in the calculation of the tax credit for dubbing will correspond to the amount paid by the eligible corporation in consideration of the service it thus received, excluding the Québec sales tax (GST) and the goods and services tax (QST).

In addition, concerning feature films for theatres, the following services will also be considered in the calculation of the expenditure eligible for the tax credit for dubbing, provided they are rendered in Québec:

- the production of film titles, i.e. the photography on neutral backgrounds of opening and closing credits and, as the case may be, of sub-titles, to produce the negative of the titles for the dubbed version, to be used for the production of distribution copies;
- optical transfer, i.e. recording of the sound on a negative to be matched with the negative of the picture to produce distribution copies for theatres.

In the most common case, i.e. when such services are provided in Québec by a person or a partnership, other than an employee of the eligible corporation, the amount considered in the calculation of the expenditures eligible for the tax credit for dubbing will correspond to 30% of the amount paid by the dubbing business for film title production services and to 20% of the amount it paid for optical transfer services, excluding the GST and the QST. In the case where these services are provided in Québec by an employee of the eligible corporation, the amount considered in calculating the expenditures eligible for the tax credit for dubbing will correspond to the wage paid to him in consideration for such services.

More specifically, the rate applicable to expenditures eligible for the tax credit for dubbing, calculated by applying the rules described above, will not be affected by these changes and will remain at 33 1/3%.

☐ Replacement of the cap

Currently, labour expenditures that entitle the taxpayer to the tax credit for dubbing are limited to 45% of production expenses of dubbing services. Since dubbing businesses are not in a position to determine their production costs by dubbing contract, new rules will limit the amount of the expenditures entitling the taxpayer to the tax credit for dubbing.

For this purpose, it will be stipulated that the expenditures eligible for the tax credit for dubbing will be limited to an amount equal to 40.5% of the consideration paid for the execution of the dubbing contract, excluding the GST and the QST, which corresponds to 45% of the price of dubbing services provided to the customer, less an approximate profit margin of 10% from the execution of the dubbing contract.

☐ Transaction between persons not at arm's length

For the purposes of calculating the tax credit for dubbing, the tax legislation will stipulate that when the consideration paid by a taxpayer to an eligible corporation with which it is not at arm's length for the execution of a dubbing contract exceeds the fair market value of the services provided by the latter, such consideration will be deemed to be equal to the fair market value.

A similar presumption will apply when the consideration paid by an eligible corporation to a taxpayer with whom it is not at arm's length for services provided as part of the execution of a dubbing contract exceeds the fair market value of such services.

□ Application date

These changes, which will be retroactive to the date the tax credit for dubbing began to apply, will apply for eligible expenditures incurred after December 18, 1997, in accordance with a contract concluded after that date.

2.3.3 Clarification concerning subscriptions for the purposes of the deduction relating to entertainment expenses

In general, the deduction granted to a taxpayer who incurs expenditures for food, beverages and entertainment to earn income is limited to 50% of the amount spent in this regard.

As an exception, expenditures relating to the cost of a subscription to concerts of a symphony orchestra or a classical music or jazz ensemble, performances of opera, dance or song, and plays are not subject to this 50% limit provided these cultural events take place in Québec. For this purpose, a subscription must include at least three performances in eligible disciplines.

The tax legislation will be amended to specify that the word "subscription" means, for the purposes of this exceptional measure, an agreement between an entertainment distributor and a client for the acquisition of a package, formulated by the entertainment distributor, of a set amount of tickets including a minimum of three different performances in one or more eligible disciplines.

For this purpose, an "entertainment distributor" means an organization whose mission is to distribute the performing arts and which assumes responsibility for a program of professional shows generating box office or subscription income. An entertainment distributor will also mean a manager of a performance space, such as a theatre, or the tenant of a number of theatres.

This change will apply to purchases of subscriptions made after the day of the Budget Speech.

2.4 Business capitalization measures

2.4.1 Higher asset limit for the eligibility of a corporation for the stock savings plan

In general, the stock savings plan (SSP) enables an individual to deduct, in calculating his taxable income for a taxation year, the cost of shares acquired under the plan no later than December 31 of the year. The main objective of the plan is to help improve the capitalization of Québec businesses.

The rate of deduction to which common shares issued by a corporation eligible for the SSP entitle the taxpayer is generally equal to 100% of their cost. However, the amount an individual can deduct, for a year, cannot exceed 10% of his total income for the year. Under the current terms and conditions of the SSP, the assets of a corporation which intends to make a public share offering under this plan must be less than \$300 million, including the assets of corporations with which it is associated during the 12 months preceding the date of the receipt for the final prospectus or prospectus exemption.

To help more growth corporations gain access to the SSP, this limit will be raised from \$300 million to \$350 million for any public share offering for which the receipt for the final prospectus or prospectus exemption is granted after the day of the Budget Speech.

2.4.2 Relaxation of the rules relating to Québec Business Investment Companies

The Québec Business Investment Company (QBIC) program, which is under the authority of Investissement-Québec, is designed to provide Québec's small and medium-sized enterprises with access to outside sources of financing for their permanent capitalization and long-term development.

In general, a QBIC is a private corporation whose activities consist mainly in acquiring and holding shares of the capital stock of small and medium-sized private corporations operating in eligible sectors of activity. When a QBIC makes an eligible investment, the individuals who are its shareholders can claim a deduction equal to 150% of the cost of the shares they have acquired. The paid-up capital with respect to common shares issued by a QBIC must be at least \$50 000.

An eligible corporation may benefit from a maximum of \$5 million in eligible investments by one or more QBICs.

At the time of the QBIC's investment, the corporation must, notably, be a private Canadian-controlled corporation with assets of less than \$25 million or net shareholders' equity of a maximum of \$10 million, and must operate in an eligible sector of activity.

Rules have been introduced to allow Investissement-Québec to refuse to validate any investment made by a QBIC whose shareholders are granted, at the time of the investment, an option to sell or any other form of guarantee of return.

Various relaxation measures will be implemented with regard to this program in order to promote its use.

❑ Application to redeem the participation of a QBIC after the end of a five-year period

In general, under the regulations adopted pursuant to the *Act respecting Québec Business Investment Companies*, a share that is part of an eligible investment cannot, by virtue of the rights, privileges and terms associated with the share, or by virtue of the terms relating to its issue, be redeemed or purchased by an eligible corporation in which the investment was made.

This requirement may seem restrictive and is hard to justify to investors on a business basis, considering, notably, that the control measures implemented by Investissement-Québec cease after the end of a five-year period following the acquisition of an eligible investment by a QBIC.

Therefore, these provisions will be amended to incorporate provisions allowing shareholders to redeem a share at their discretion, subject to the applicable corporate legislation pertaining to the rights, privileges and terms associated with the share, provided the redemption occurs only after the end of a five-year period following the investment, does not include any guarantees in regard to the price payable for the share, and the terms and conditions for determining the price payable are approved by Investissement-Québec and established prior to the issue of the share.

This change will apply to any investment made by a QBIC after the day of the Budget Speech.

❑ Corporations that hold shares in a QBIC

According to the *Act respecting Québec Business Investment Companies*, a shareholder of a QBIC must generally be a natural person. Allowing a corporation to invest in a QBIC may provide it with additional liquid assets and thus enable it to further diversify its investments.

The *Act respecting Québec Business Investment Companies* will be amended to allow a corporation to become a shareholder of a QBIC, although without deriving a tax benefit. However, the paid-up capital in respect of common shares held by natural persons will have to be at least \$50 000.

☐ Protection of investors

In accordance with existing regulations, Investissement-Québec can refuse to validate an investment if the price paid for the shares of the capital stock of an eligible corporation is considerably higher than the value of a common share issued by the corporation, notably in regard to shareholders' equity.

To ensure that Investissement-Québec is better able to adequately protect QBIC investors, it will be granted additional authority to obtain all pertinent financial information from a corporation. In addition, if the potential viability of a business operated by a corporation is too limited, Investissement-Québec will be able to refuse to validate an investment.

2.5 Adjustments to tax measures relating to the financial sector

In the Budget Speech of March 31, 1998, various tax measures aimed at promoting the development of the financial sector in Québec were announced. Certain adjustments have already been made to these measures, and other adjustments will be introduced.

2.5.1 Measures concerning international financial centres

☐ Broadening of financial engineering services recognized as eligible international transactions

Under existing rules, financial engineering services are recognized as eligible international transactions when they are part of services of financial assembly rendered for a project that must be carried out almost exclusively outside Canada.

The legislation pertaining to international financial centres (IFCs) will be amended to broaden the scope of this recognition. More specifically, financial engineering services rendered on behalf of persons who do not reside in Canada or, if the securities to which these services are related are eligible securities, on behalf of persons who reside in Canada will henceforth be recognized as eligible international transactions.

For this purpose, the expression “eligible securities” will mean:

- a security listed on the International Options Market, Mercantile or International divisions of the Montréal Exchange, if the operation bearing on the acquisition of such security is executed there;
- a security of a Canadian corporation, if the operation bearing on the acquisition of such security is carried out on an organized securities market located outside Canada;
- a security of the Canadian government or of a province, including their government corporations, which is not a security governed by Canadian law;
- a security of a government of a foreign country, a political subdivision of such country or a corporation that is not a Canadian corporation;
- a security relating to a foreign entity.

In addition, the expression “financial engineering services” will include activities relating to the development of new financial products and those relating to the design of made-to-measure financial products for a particular client or a particular situation.

This change will apply to financial engineering services rendered after the day of the Budget Speech.

☐ Extension from four to five years of the tax exemption period for foreign specialists

Briefly, an individual who is a specialist in eligible international transactions and who, immediately before the signing of his contract of employment or the assumption of his duties as an employee of a corporation or a partnership which operates an IFC, is not a resident of Canada can claim a total income tax exemption for a period of four years.

The legislation pertaining to IFCs will be amended to increase from four to five years the period for which such specialists can claim an income tax exemption.

This change will apply to an individual who assumes his duties for the first time as an employee of a corporation or a partnership that operates an IFC, after the day of the Budget Speech.

2.5.2 Measures to foster the creation of investment funds

In the Budget Speech of March 31, 1998, tax benefits were introduced to encourage the creation of investment funds in Québec. These benefits consist of a five-year tax holiday regarding the income earned from the administration and management of a new eligible investment fund, and a refundable tax credit of an amount, not exceeding \$250 000, equal to 50% of the eligible start-up expenditures incurred in regard to such a fund.

Under existing rules, an eligible investment fund means an investment fund for which the date of the first calculation of the net asset value of its units is after December 31, 1997 and before April 1, 2000, and which is:

- a mutual fund, within the meaning of the *Securities Act*,
- an open-ended investment company, as understood in the *Securities Act*,
- a segregated fund of a life insurance company, incorporated pursuant to a bylaw of such insurance company or to a resolution of the company's board of directors.

To obtain these tax benefits, in regard to an investment fund, an eligible corporation must enclose with its tax return a copy of the certificate issued by the Minister of Finance attesting to the eligibility of the investment fund, and a copy of the certificate issued by the Minister of Finance stating the amount of eligible start-up expenditures relating to the investment fund.

Changes will be made to extend the application period of these measures, ease the eligibility criteria pertaining to the presence of an investment fund in Québec, exclude certain segregated funds and limit the scope of the expression "eligible start-up expenditure".

□ Extension of application period

The period during which an investment fund must be created will be extended for one year. Thus, the date of the first calculation of the net asset value of the units of a fund will have to be prior to April 1, 2001.

□ Easing of the eligibility criteria relating to the presence of a fund in Québec

In general, for an investment fund to qualify as an eligible investment fund, all or almost all of its management and administration must be carried out in Québec for the entire five-year period following the date of its creation. In addition, all or almost all of the work relating to its promotion and marketing must be performed in Québec.

- **New eligibility criteria**

Henceforth, an investment fund may qualify as an eligible investment fund if its administration, management and the work relating to its promotion and marketing are each carried out in a proportion of at least 75% in Québec.

With regard to the administration and management of a fund, this minimum proportion must be attained by the end of the fund's second year of existence at the latest. As soon as this proportion is reached, the Minister of Finance will be able to issue a final certificate, stating that an investment fund qualifies as an eligible investment fund. In the meantime, it will be possible to issue a provisional certificate, subject to an undertaking by the eligible corporation that this proportion will be achieved by the end of its second year of existence at the latest.

This provisional certificate will allow the eligible corporation to benefit, as of the first year of existence of the fund for which the certificate is issued, from the tax exemption in regard to the income earned from the administration and management of the fund. However, with respect to obtaining a tax credit for start-up expenditures regarding a fund, the possibility of claiming a tax credit for such expenditures incurred during a taxation year prior to the one in which the final certificate issued for the fund takes effect will be deferred until the taxation year in which the final certificate becomes effective.

- **Application date and transitional rules**

The new eligibility criteria relating to the presence of an investment fund in Québec will generally apply to an investment fund created after the day of the Budget Speech.

In addition, an investment fund created after December 31, 1997 but no later than the day of the present Budget Speech will also be able to obtain the tax benefits announced in the Budget Speech of March 31, 1998, provided it meets the new eligibility criteria throughout a five-year period beginning on the day after the day of the Budget Speech, and not as of the date when the fund was created. More precisely, the five-year tax holiday in regard to income earned from the administration and management of an investment fund, and the period during which eligible start-up expenditures can be incurred for the purposes of the tax credit for start-up expenditures will remain unchanged and will begin on the date when the fund was created.

- **Exclusion of certain segregated funds**

When Information Bulletin 98-8 was published on December 22, 1998, certain types of funds that are not widely distributed among the public were specifically excluded from the definition of "eligible investment fund", namely:

- funds exempted, owing to the nature of their distribution, from preparing a prospectus, in accordance with the provisions of Division II of Chapter II of Title II of the *Securities Act*, or equivalent funds distributed solely outside Québec;
- segregated funds constituted under variable group insurance contracts exempted from the requirement to file an information folder, in accordance with the provisions of section 216 of the *Regulation respecting the application of the Insurance Act*.

An additional technical change will be made to this definition in order to exclude other types of segregated funds that are not widely distributed among the public, but that were not covered expressly by the specific exclusions indicated above. More specifically, the rules of exclusion mentioned with regard to the first category of funds will also apply to segregated funds, as if such funds constituted mutual funds subject to the rules governing the distribution of securities to the public pursuant to the *Securities Act*.

This change will apply to investment funds created after December 31, 1997.

☐ Eligible start-up expenditures

The definition of the expression “eligible start-up expenditure” will be changed for the purposes of the refundable tax credit for start-up expenditures in order to exclude any expenditure relating to the administration or management of an investment fund that may reasonably be attributed to work performed outside Québec.

This change will apply to any expenditure incurred after the day of the Budget Speech. It will also apply to any expenditure incurred by the day of the Budget Speech at the latest in regard to an investment fund that was created after December 31, 1997 and that may now be eligible in accordance with the new criteria relating to the presence of a fund in Québec.

2.6 Income averaging measure for the owners of private woodlots affected by the ice storm

In January 1998, certain parts of Québec were hit by an ice storm of unprecedented severity that caused major damage to forests in these regions over an estimated area of 18 000 km²,² of which 16 000 km² is privately owned.

The government has already introduced financial and technical assistance programs to advise private woodlot owners about the restoration of woodlots and the recovery and marketing of damaged trees.

However, the period for recovering and marketing the damaged trees will be short and will generate income for the owners of private woodlots that they would normally have earned over a longer period.

In this context, the tax legislation will be amended to allow the owners of private woodlots affected by the ice storm to benefit from a tax deferral for a period of up to four years in regard to a portion of the income earned from the sale of timber derived from logging operations on their woodlot.

More specifically, an eligible owner of a private woodlot covering at least four unbroken hectares in an area affected by the ice storm will be able to deduct, in calculating the income he earned from the sale of timber derived from logging operations on this woodlot, for a given taxation year, an amount not exceeding 40% of such income otherwise calculated for that taxation year. Subsequently, the amount of this deduction must be included, in whole or in part, in calculating his income for one of the four taxation years following the taxation year concerned. However, the total amount of the deduction must be included in the calculation of his income by the fourth taxation year following the taxation year concerned.

The expression “eligible owner” will mean a private woodlot owner who has benefited from one of the financial and technical assistance programs⁸ implemented by the ministère des Ressources naturelles or by the ministère de l’Agriculture, des Pêcheries et de l’Alimentation with regard to the damage caused to private woodlots by the ice storm of January 5 to 9, 1998, and aimed, notably, at providing these owners with administrative and technical assistance in order to optimize the value of the products derived from the recovery of damaged trees.

The taxation years concerned, for the purpose of this measure, are 1999, 2000, 2001 and 2002. For these taxation years, the income tax relating to an amount not exceeding 40% of the income earned from the sale of timber derived from logging operations on a woodlot by an eligible owner affected by the ice storm may be deferred, at the latest, to taxation years 2003, 2004, 2005 and 2006 respectively.

8 Order in Council 1440-98, (1998), G.O. 2, 6487; Order in Council 1464-98, (1998), G.O. 2, 6506; Order in Council 1465-98, (1998), G.O., 2, 6509.

3. CONSUMPTION TAXES

3.1 Québec sales tax

3.1.1 *Measures aimed at ensuring the integrity of the tax system in the automotive vehicle sales sector*

A new form of tax avoidance has emerged in recent months in the automotive vehicle sales sector. Considering how difficult it is to put an end to this phenomenon solely by applying the control measures currently provided for in the tax legislation, the Québec sales tax (QST) system will be modified with regard to sales of automotive vehicles.

☐ Zero-rating of automotive vehicles purchased for re-supply purposes

In general, the QST system stipulates that the recipient of taxable property or service is required to pay the tax applicable to it and that the supplier of the property or service must, in his capacity as a government mandatary, collect the tax from the recipient and remit it to the tax authorities. However, if the recipient is a registrant who acquires the property or service in the course of his commercial activities, he is usually entitled to obtain an input tax refund (ITR) in respect of the property or service thus acquired.

These principles, which form the basis of the QST system, will cease to apply beginning on May 1, 1999 with regard to automotive vehicles with a net weight of less than 4 000 kilograms, when such vehicles are sold to registered or non-registered recipients who purchase them solely for the purpose of re-supplying the vehicles by way of sale or of lease for at least one year.

Thus, effective May 1, 1999, a recipient who purchases an automotive vehicle with a net weight of less than 4 000 kilograms solely for the purpose of re-selling it or of leasing it for at least one year shall not pay the QST in respect of the sale of the vehicle, which will be zero-rated, while the seller of the vehicle shall not collect the tax from the recipient. In addition, if the recipient nonetheless pays the QST to the seller under these circumstances, he will not be able to obtain a refund from the tax authorities through the ITR mechanism or through any other rebate mechanism. In such cases, the recipient will have to contact the seller directly to recover the QST that the latter unduly collected.

- **Sale of an automotive vehicle with a net weight of less than 4 000 kilograms**

For the purposes of this zero-rating measure, the expression “sale” will have the meaning assigned to it under the QST system, although it will not include the concept of gift.

As for the expression “automotive vehicle”, it will mean a self-propelled vehicle with four or more wheels designed essentially for transporting passengers or property by road. More precisely, this expression will include jeep, van, bus and truck-type vehicles.

Lastly, the expression “net weight” will mean, in the case of a new automotive vehicle, the weight of the vehicle as indicated by the manufacturer when it was shipped. In the case of a used automotive vehicle, it will mean the weight indicated on the registration certificate issued to the last person who owned or leased the vehicle. Consequently, no additions or modifications that the recipient may make to the vehicle prior to re-supplying it and that change its weight will be taken into account.

- **Change in use**

To guarantee payment of the QST in respect of an automotive vehicle that will be covered by the zero-rating measure and that will start to be used by the recipient or at his expense by another person for any other purpose than the purposes targeted by this measure, the rules respecting change in use currently provided for in the QST system with regard to registrants will be adjusted to take this new situation into account.

In addition, a special rule will be introduced for non-registrants, which will be similar to that which applied prior to August 1, 1995 to non-taxable supplies of property whose use was changed after they had been acquired by such persons.

- **Other related changes**

Considering the impact the introduction of this new zero-rating measure may have on certain provisions of the QST system, certain related changes will be made. In particular, the provisions pertaining to the rules governing exchanged property and to those governing the sale or lease of property received by an insurer as settlement of an insurance claim or by a creditor following the seizure or repossession of property will be amended.

- **Application date**

These changes to the QST system will apply to the sale of an automotive vehicle whose total consideration will become due after April 30, 1999 and was not paid by that date at the latest. They will also apply to the sale of an automotive vehicle for which part of the consideration will become due after April 30, 1999 and was not paid by that date at the latest. However, the QST will be payable, collectable and, where applicable, refundable in respect of any part of the consideration for the sale that will become due or will be paid prior to May 1, 1999.

☐ Tax collected by the Société de l'assurance automobile du Québec in regard to retail sales of automotive vehicles

Under the QST system, the tax payable in respect of the retail sale of an automotive vehicle must usually be collected from the purchaser of the vehicle by the person who sells it. However, when the retail sale of an automotive vehicle is made by a person who is not acting in the course of commercial activities or who is a small supplier, the tax is collected from the purchaser by the Société de l'assurance automobile du Québec (SAAQ) upon the registration of the vehicle.

In the fall of 1999, the QST system will be modified so that the tax payable on the retail sale of an automotive vehicle with a net weight of less than 4 000 kilograms, within the meaning assigned to these expressions for the purposes of the zero-rating measure described above, can be collected only by the SAAQ upon the registration of the vehicle.

Thus, persons who make retail sales of such vehicles in the course of their commercial activities will cease to be government mandataries in this regard. They will no longer be authorized to collect the QST from the purchasers of such vehicles, while the latter will be required to pay it to the SAAQ. Therefore, if a purchaser nonetheless pays the QST to the seller under these circumstances, he will again be required to pay it to the SAAQ upon the registration of the vehicle and will not be able to obtain a refund of it from the tax authorities. The purchaser will then have to contact the seller directly to recover the QST that the latter unduly collected.

The date this measure will come into force and its terms of application will be specified later.

3.1.2 Input tax refund in respect of Internet services

The QST system currently stipulates that large businesses cannot apply for an ITR with regard to certain property and services acquired in the course of their commercial activities. These restrictions on obtaining an ITR apply notably to telecommunications services, which include certain Internet services such as Internet access and Web site hosting.

However, these Internet services are not considered telecommunications services in certain provinces and, therefore, are not subject to the tax applied by these provinces to telecommunications services.

To prevent large businesses in Québec from acquiring these Internet services from suppliers situated in provinces where they are not taxable rather than from suppliers in Québec, the restriction on obtaining an ITR in respect of Internet services that constitute telecommunications services will be eliminated starting on the day after the day of the Budget Speech. Thus, the QST that will become payable after the day of the Budget Speech and that was not paid by the day of the Budget Speech at the latest in regard to the acquisition of such Internet services can be included in the calculation of the ITR of large businesses.

3.1.3 Rebate of the tax paid in regard to automatic door openers for the use of disabled persons

The QST system provides for the zero-rating of selector control devices that are specially designed to allow a disabled person to activate, select or control, among others, a household appliance or a lighting system. However, this zero-rating measure does not apply to selector control devices that are designed to automatically open a door and that are acquired to allow a disabled person to gain access to his residence without the assistance of another person.

To remedy this situation, the QST system will be modified to introduce a rebate of the tax paid in regard to the acquisition of an automatic door opener and to the services involved in installing it, when the door opener is acquired for the use of a person who, because of a physical disability, is unable to enter his residence without assistance.

To be eligible for this QST rebate, persons who acquire an automatic door opener must submit an application to that effect, using the prescribed form, to the Minister of Revenue within the four-year period following the day on which they paid the QST. The application must be accompanied by proof of the disability of the person for whose use the door opener was acquired. A medical certificate describing the disability of the person identified therein and stating that he would not be able to enter his residence on his own without an automatic door opener will constitute sufficient proof. The application must also be accompanied by a document from the supplier stating the amount of QST paid in respect of the acquisition of the automatic door opener and its installation.

This measure will apply to the QST that will become payable after the day of the Budget Speech and that was not paid by the day of the Budget Speech at the latest in regard to the acquisition of an automatic door opener.

3.2 Fuel tax and tobacco tax

Operators of businesses in the fuel and tobacco sectors are required, in their capacity as government mandataries, to obtain numerous certificates and permits from the tax authorities, designed to allow the latter to exert a certain control over the activities of these mandataries and thus maintain the government's tax revenue. However, despite these economic imperatives, the government is concerned about the legal and regulatory obligations that increase the administrative burden of business operators, without being truly necessary for ensuring the integrity of the tax base.

In this context, the Minister of Revenue, Rita Dionne-Marsolais, mandated a task force to review the pertinence of some of the certificates and permits presently required for the purposes of the fuel tax and tobacco tax systems. Based on the work of this task force, it was concluded that the tax legislation should be amended to provide for relief measures in this regard. All of these measures will be covered by draft legislation to be tabled shortly by the Minister of Revenue.

3.2.1 Elimination of the registration certificates required under the fuel tax and tobacco tax systems

For the purposes of the fuel tax system, each party involved in this sector of activity must hold a registration certificate. The same requirement applies under the tobacco tax system to the various parties involved in the tobacco industry, except for retailers. In general, however, all persons who hold such registration certificates are also required to hold a registration certificate for the purposes of the QST system. As a result, the measures relating to the identification of these mandataries duplicate one another.

To eliminate this duplication, the obligation to hold the registration certificate provided for by the fuel tax and tobacco tax systems will be eliminated. At the same time, the QST system will be changed to make the registration of small suppliers of fuel compulsory.

3.2.2 Limitation of the obligation to hold a fuel storer's permit

The fuel tax system stipulates that any person who takes or grants a lease on an establishment for the storage of bulk fuel in Québec is usually required to hold a permit issued for that purpose. This obligation, whose application is very broad, targets not only persons who store fuel in bulk storage areas, but also those who store it in service station tanks, where the fuel is pumped directly, by means of a dispensing pump, into the tank supplying the engine of motor vehicles.

However, the storage of fuel in service station tanks is not very likely to generate fraudulent activities and, therefore, the obligation to hold a storer's permit could be limited to persons who store fuel in bulk storage areas. Consequently, the fuel tax system will be modified to exempt persons who operate service stations from this obligation.

3.2.3 Limitation on the obligation to hold a permit for the transportation of bulk fuel

In general, any person who transports bulk fuel in Québec is required to hold a permit issued for that purpose under the fuel tax system. The application of this measure has demonstrated that its scope is much too broad, given that it targets not only persons who transport bulk fuel for the purpose of selling it but also those who transport it for their personal consumption, such as farm and forest operators and building contractors.

Considering the amount of fuel that may be transported in the vehicles of persons in the latter category, the risk of tax evasion is very limited in this regard, and it is possible, therefore, to limit the scope of the obligation to hold a permit for the transportation of bulk fuel. Consequently, an exemption will be introduced under the fuel tax system for persons who transport bulk fuel by motor vehicle in tanks with a total capacity of no more than 2 000 litres, provided the fuel is intended solely for their own consumption.

3.2.4 Elimination of the tobacco vending machine operator's permit

The tobacco tax system stipulates that vending machine operators must hold a permit. The permit number assigned to the operator of such a machine corresponds to his registration number for the purposes of the QST system, a situation that leads to the unnecessary repetition of information on a person.

Therefore, the obligation to hold a vending machine operator's permit for the purposes of the tobacco tax system will be eliminated.

4. OTHER FISCAL MEASURES

4.1 Easing of provisions governing calculation of the alternative minimum tax

Québec tax legislation provides for an alternative minimum tax payable by individuals who, for a taxation year, claim more than \$25 000 in certain tax expenditures.

Briefly, when the total amount of the deductions exceeds this basic exemption, the individual's taxable income is recalculated disregarding these tax expenditures, subtracting the basic \$25 000 exemption from the taxable income, and applying a rate of 23% to the new taxable income, provided it is greater than the income tax otherwise payable. It is this alternative minimum tax that the individual must pay.

□ Easing of provisions governing capital securities

Neither the Québec Business Investment Companies (QBIC) nor the Stock Savings Plan (QSSP) deduction, for example, can be claimed when recalculating an individual's taxable income in order to apply the alternative minimum tax. This increases either the likelihood that this individual will have to pay this tax or the actual amount of tax payable.

To promote investments for which Québec grants tax benefits in the form of deductions, the method for calculating the alternative minimum tax will be modified so that the portion of these deductions exceeding 100% is taken into account in the calculation.

More specifically, an individual who, for a taxation year, has been allowed a deduction for a QBIC share for an investment made by the QBIC, a share in a regional venture capital company eligible for the QSSP or preferred units in a cooperative investment plan may, in calculating his modified taxable income for that year, deduct the portion of these deductions that exceeds 100% of the cost of the share or preferred unit, whichever the case may be, for the purpose of applying the alternative minimum tax.

This change will come into effect as of the 1999 taxation year.

□ Easing of the provision governing stock options

When an individual acquires capital stock in a corporation by exercising a stock option offered by the employer, the taxable benefit is equal to the amount that exceeds the value of the share purchased over the total of the amount paid for the share and the amount paid for the right to purchase it.

The amount of this benefit must generally be included in an individual's income calculation for the year in which the stock was purchased or the year it was transferred to a third party in the case of the capital stock of a private company controlled by Canadian interests. However, the individual may then claim a deduction equal to 25% of the amount of the benefit thus included in his income calculation.

However, this 25% deduction cannot be claimed when calculating an individual's modified taxable income for the purpose of applying the alternative minimum tax. This increases either the likelihood that the individual will have to pay this tax or the actual amount of tax payable.

To promote the creation and preservation of jobs in Québec's leading-edge sectors, where stock options are often used to remunerate strategic personnel, the method used to calculate the alternative minimum tax will be modified to take into account the 25% deduction for an individual for the taxable benefit relating to a stock option.

More specifically, an individual who, for a taxation year, is allowed the 25% deduction for the taxable benefit related to a stock option may, in calculating his modified taxable income for that year, use this deduction for the purposes of applying the alternative minimum tax.

This change will come into effect as of the 1999 taxation year.

4.2 Clarification concerning employer obligations of members of a partnership

Employers must deduct from the wages they pay their employees the income tax and Québec pension plan contributions payable by them. Employers must also pay various contributions on their employees' wages.

These amounts must be remitted periodically to the Minister of Revenue, and, once a year, a summary of deductions and employer contributions must be filed. After studying this summary, the Minister of Revenue sends the employer a notice of assessment, if applicable.

The Court of Québec recently cancelled an assessment issued to a partnership on the grounds that a partnership does not have a juridical personality and cannot, as a result, be subject to an assessment.

The tax legislation will be amended to eliminate any ambiguity in this regard, and to stipulate the employer's obligations of members of a partnership operating under the name declared by it.

More specifically, the tax legislation will be amended to stipulate that any document issued by the Minister of Revenue to the name declared by a partnership, a notice of assessment, for instance, is deemed to have been issued to the members of the partnership operating under the name declared by it.

Consequently, after issuing an assessment to a partnership, the MRQ can still seek payment of the employer's obligations of the members of this partnership operating under the name declared by it, after first discussing the assets of this partnership.

This amendment will apply in a declaratory manner. However, it will not apply to cases pending before the courts the day of the Budget Speech or to notices of objection served to the Minister of Revenue no later than this date, when the obligations of the members of a partnership or of the partnership as an employer are contested no later than this day with respect to such cases or notices, and when the elements targeted by this amendment are being contested.

4.3 Creation of a working group on the prospect of a specialized tax forum

Cases involving the MRQ's application of Québec tax legislation are submitted to the Court of Québec, which has exclusive jurisdiction in this area. However, this court has no division specializing in tax-related matters.

The Administrative Tribunal of Québec (ATQ), created on April 1, 1998, is the main tribunal of first instance for disputes in the field of administrative law between justiciables and the government. More specifically, the ATQ exercises its jurisdiction in a number of specialized fields, notably municipal taxation.

Over time, the use of the Québec taxation system as a tool for intervention has increased substantially. Furthermore, it is widely acknowledged that tax law is becoming more and more highly specialized.

From this viewpoint, there is reason to wonder whether the Québec legal system is well suited to this reality or whether tax-related matters should be referred to a specialized forum.

A number of jurisdictions that manage their taxes independently have such forums. The Tax Court of Canada, for example, has exclusive jurisdiction over cases involving Revenue Canada's application of Canadian tax legislation.

The government will set up a working group, composed of representatives from the ministère de la Justice, the ministère des Finances, the MRQ and the ATQ, to study the matter, analyse the desirability of having a specialized forum to deal with tax-related matters and, if applicable, identify the appropriate body for doing so. This working group will also be asked to propose specific measures to ensure the sound administration of justice in tax-related matters.

To this end, the working group will consult the various parties with an interest in the settlement of tax-related disputes, notably the Barreau du Québec.

After completing its study, the working group will make its recommendations to the government and, if applicable, the Minister of Justice will table draft legislation on this subject in the National Assembly.

4.4 Flow-through financing of mining, oil and gas exploration

Current tax legislation contains specific provisions designed to facilitate financing by the public of mining, oil and gas exploration in Canada and Québec. Under these provisions, a development company, more commonly called a junior exploration company, may issue so-called flow-through shares, whose proceeds are used for exploration or development. The eligible expenses subsequently incurred by such companies are waived in favour of the investors, and may be claimed as deductions in calculating the income of shareholders (generally individuals). This mechanism is definitely advantageous particularly given the difference in corporate and personal tax rates and the resulting higher tax value for individuals. The additional deductions applicable in some cases increase this value still further. The indirect assistance the government, more particularly the Québec government, thereby grants the mining, oil and gas industry, actually represents a considerable proportion of the exploration expenses incurred in Québec.

Recently, tax authorities discovered major irregularities in the practice of flow-through financing. The audits conducted resulted in a change in the amounts waived in favour of investors.

These events of course elicited differing reactions on the part of investors, the industry and the government authorities involved in flow-through financing. Representatives from the ministère des Ressources naturelles, the ministère du Revenu, the ministère des Finances and the Commission des valeurs mobilières du Québec have met in the past few months to discuss the issue, more specifically:

- the problems involved in recovering the undue tax benefits directly from investors;
- the desirability of taking a different approach, in future, to recovering such benefits from those who indirectly benefited from them;
- measures to tighten controls in order to correct at the source the problems identified;
- the relevance of preserving the tax mechanism for outside financing constituted by the flow-through share system.

A working group, composed of representatives from the ministère des Ressources naturelles, the ministère du Revenu and the ministère des Finances, will continue its deliberations in the months to come in conjunction with the industry in order to propose measures offering effective support for mining, oil and gas exploration.

4.5 Implementation of transitional rules related to the elimination of the tax credit for job creation

Before 1999, Québec employers who created jobs during a calendar year could generally claim a reduction in payroll taxes regarding the jobs thus created. This reduction was granted as a refundable tax credit.

Briefly, this tax credit was equal to \$1 200 for each new full-time job created during a calendar year by an employer whose contributions to the Health Services Fund (HSF) had increased during such year. It could reach a maximum of \$36 000 for a calendar year if 30 full-time jobs were created during such year.

More specifically, for a job to qualify as full-time, for a calendar year, the employee holding it had to work at least 26 hours a week during the calendar year for a period of no less than 40 weeks ending within this calendar year.

The Budget Speech of March 31, 1998 announced that the tax credit for job creation would be eliminated for calendar years after 1998. This left sufficient time in 1998 for employers who had already hired new employees to take advantage of the tax credit for job creation for 1998.

Some employers had taken significant steps to create jobs before the announcement that the tax credit would be eliminated. However, they were unable to claim the tax credit for jobs created after March 31, 1998 since the 40-week period qualifying these jobs as full-time ended in 1999, and employers could no longer make use of the tax credit for job creation in 1999.

❑ Implementation of transitional rules

The tax legislation will be amended to take this situation into account and allow employers who created full-time jobs during the 1998 calendar year to benefit from the tax credit for job creation pertaining to these jobs.

More specifically, an employer may benefit from this tax credit, for the 1999 calendar year, for employees on the payroll in 1998 who did not work the minimum 40 weeks needed to qualify their job as full-time. However, this 40-week period must end in 1999. Such jobs will henceforth be called “full-time jobs for 1999”.

❑ Method for determining the tax credit for 1999

The tax credit available to employers for the 1999 calendar year will generally correspond to the figure resulting from the following formula:

$$\$1\,200 \times (A - B)$$

Where:

- A corresponds to the sum of the number of full-time jobs for 1999 and the maximum number of full-time jobs at a given time in 1998;
- B corresponds to the sum of the maximum number of full-time jobs at a given time in 1997 and the number of full-time jobs for 1998 that allowed the employer to claim the \$1 200 tax credit for the 1998 calendar year.

However, the maximum tax credit available to an employer for the 1999 calendar year will be limited to the amount that exceeds \$36 000 over the amount of the tax credit for job creation from which the employer benefited for the 1998 calendar year.

❑ Other terms and conditions

More specifically, all of the conditions an employer had to satisfy to claim the tax credit for job creation for the 1998 calendar year must also be satisfied in order for him to benefit from the tax credit for the 1999 calendar year.

However, this requirement will not apply to the increase in employer contributions to the HSF, and the employer should be subject to no such increase in 1999 in order to benefit from a tax credit for this year.

4.6 Simplification of certain tax credits which must be calculated every pay period

In the Budget Speech of March 25, 1997, various measures designed to improve and regularize the situation with regard to the declaration of tips in the restaurant and hotel industry were announced.

Consequently, employees earning tips in the performance of their job duties must report the amount in writing to their employer. Furthermore, when the amount reported to the employer for a pay period is less than 8% of the employee's sales subject to tips for this period, an amount equal to the difference between the tips reported to the employer and the amount representing 8% of the employee's sales subject to tips is allocated to the employee as tips.

Moreover, although employers must pay various charges regarding these tips, they benefit from a refundable tax credit in their regard.

Adjustments will be made to these measures.

□ Simplification of the tax credit for reporting tips

The tax credit for reporting tips is allowed, in particular, for the employer's portion of the Health Services Fund (HSF), Québec Pension Plan (QPP) and employment insurance contributions attributable to tips.

This tax credit is also allowed for the portion of an employee's indemnity for annual paid leave attributable to tips and for the employer contributions payable for this portion of the indemnity.

The method used to calculate the tax credit for declaring tips will be simplified in two ways.

- **Employer HSF, QPP and employment insurance contributions**

Current rules stipulate that, for each pay period ending in a taxation year, the portion of the employer HSF, QPP and employment insurance contributions entitling him to the tax credit for that year must be calculated.

The tax legislation will be amended to simplify the method for calculating the tax credit in this regard, by replacing this period-based calculation by an annual calculation.

More specifically, the amount of employer HSF, QPP and employment insurance contributions entitling the employer to the tax credit for a given taxation year is equal, for each contribution, to the amount obtained by multiplying the rate of contribution in question by the amount of the tips of the employees of this employer for this year.

When the employer's taxation year and the calendar year coincide, the contribution rate to be used will equal the rate applicable for that calendar year. When an employer's taxation year straddles two calendar years, the contribution rate to be used will equal the sum of the rates applicable for each calendar year, weighted on the basis of the number of days in the taxation year that are also in each calendar year.

With regard specifically to employer HSF contributions for the calendar years 1999 and 2000, the contribution rate to be used for the portion of the taxation year ending in one of these calendar years will equal the rate used for period-based remittances for this period of this year.

- **Annual paid leave and related employer contributions**

Current rules stipulate that the portion of an employee's annual paid leave indemnity attributable to tips must be paid during a taxation year for the employer to be entitled to the tax credit for that year.

Often, however, the employee does not receive his annual paid leave indemnity during the employer's taxation year in which the employee became entitled to this indemnity. Moreover, the various contributions payable by an employer in regard to this indemnity are payable only when the employee receives this indemnity. Consequently, when the employee does not receive his annual paid leave indemnity in the taxation year in which he became entitled to it, the calculation of the portion of the tax credit applicable to this indemnity and to the related contributions, upon payment, may be relatively complex.

The tax legislation will be amended to simplify the method used to calculate this tax credit.

On one hand, the tax credit for reporting tips, for a taxation year, will henceforth be calculated on the basis of the annual paid leave indemnity earned by the employee during that year, regardless of whether it was paid to the employee during that year.

On the other hand, the tax credit, for a taxation year, applicable to employer contributions related to that portion of the annual paid leave indemnity attributable to tips, will be calculated on the basis of the contributions payable that year, at the applicable rate, determined in keeping with rules similar to those described above, if the annual paid leave earned by an employee had been paid to him during that same year.

However, should the annual paid leave indemnity or the employer contribution for which a tax credit was allowed not have been paid by the employer within 12 months of the filing deadline applicable to this employer for the year for which he benefited from the tax credit, this tax credit will be recovered via a special tax.

- **Effective date**

These changes will apply retroactively as of the date the tax credit for reporting tips was created.

❑ Postponement of the inclusion of tips in the base of contributions to the Commission de la santé et de la sécurité du travail

On June 23, 1998,⁹ it was announced that the *Act respecting industrial accidents and occupational diseases* would be amended to include tips in the calculation of the insurable payroll used to determine contributions to the Commission de la santé et de la sécurité du travail (CSST). It was also announced that employers could claim a tax credit for reporting tips for CSST contributions payable for tips. These amendments were supposed to apply to pay periods ending after December 31, 1998.

However, it was impossible to inform employers of these amendments within a sufficient time frame.

Consequently, these amendments will come into effect one year later, and will apply to pay periods ending after December 31, 1999.

4.7 Technical changes relating to the tax on capital

A corporation with an establishment in Québec at any time in a taxation year is subject to the tax on capital, calculated on the basis of the paid-up capital shown in its financial statements for the year, prepared in keeping with generally accepted accounting principles.

In general, the paid-up capital of a corporation which is not a financial institution is calculated by adding most of the figures contained in the "shareholder's equity" and "long-term liabilities" sections of the balance sheet. To avoid tax duplication, a reduction in the paid-up capital is allowed with respect to investments in other corporations, and a deduction allowed for the deferrable income tax reserve balance. Lastly, a tax rate of 0.64% is applied to this paid-up capital.

9 Ministère des Finances Information Bulletin 98-3.

4.7.1 Change related to selling price balances

Current rules allow a reduction in the paid-up capital with respect to certain investments in other corporations. The investments for which such reduction is allowed are notably those comprising shares, bonds, loans and advances to corporations. This reduction for investment is not generally allowed for other instruments. This is the case, notably, for amounts receivable for the sale of goods or services.

Exceptionally, the balance of the selling price accepted by a corporation at the time an immovable is sold to another corporation, when this balance bears interest and is guaranteed by a mortgage on the immoveable sold, constitutes an eligible investment under an MRQ administrative policy. However, this administrative policy applies only when the debtor is a corporation authorized to receive deposits, or is the creditor's parent company with its head office outside Canada. Furthermore, the buyer of the property must include the amount of this debt in the calculation of its paid-up capital, notably when the debt payment is guaranteed, in whole or in part, by a good it owns.

Current tax policy will be eased so that, for the purposes of calculating paid-up capital, treatment of such selling price balances is similar for both buyer and vendor. To this end, the tax legislation will be amended so that a selling price balance is eligible for the reduction for investment when the buyer is a corporation and this selling price balance is guaranteed, in whole or in part, by a good it owns. However, such deduction does not apply when the debtor is either a corporation authorized to receive deposits or the creditor's parent company, if the latter has its head office outside Canada.

This change will apply to taxation years ending after the day of the Budget Speech.

4.7.2 New accounting standards relating to deferred income tax

Current accounting standards provide for recording deferred income tax to take into account temporary differences in the accounting treatment and tax treatment of certain items. Briefly, the results of these differences are called deferred tax debits when the income tax can be considered to have been paid before the book profit is made. Conversely, they are called deferred tax credits when there is a delay between the income taxes actually payable and the income taxes that would be payable on the book profit.

The implementation of new rules for recording profit taxes raise some questions as to the impact of these taxes with respect to the tax on capital. These new rules will generally apply to fiscal years under way beginning on January 1, 2000. However, they may be adopted in advance.

The new rules use new terms to identify deferred income tax, namely: “future income tax assets” and “future income tax liabilities”. Furthermore, the amounts of these tax assets and liabilities will no longer be the result of the difference in the amounts requested for accounting and tax purposes. Rather, they will be calculated using the difference between the accounting value and tax value of the assets and liabilities.

Where tax on capital is concerned, deferred tax debits and deferred tax credits are respectively deducted and added in calculating the paid-up capital. Since these accounting items have a direct impact on shareholder equity, the resulting impact on paid-up capital is zero.

In order to maintain the current tax policy relating to deferred income tax, the tax legislation will be amended to specify that the “future income tax assets” and “future income tax liabilities” will be respectively deducted and added in calculating the paid-up capital.

4.8 Assignment of a tax refund by a corporation

Under the current rules, any amount owed by the Crown as a refund under tax legislation is non-assignable and unseizable.

However, the refund or the right to a refund of an amount owed by the Crown under tax legislation may be assigned to someone other than the person entitled to it or able to exercise this right, if a provision of this legislation expressly provides for it and if the assignment occurs in keeping with the legislation.

Québec tax legislation will be amended to facilitate corporations’ access to financing, without adversely affecting the government’s current rights relating to debts owed to it by a corporation.

More specifically, a corporation may henceforth assign to a third party any amount owed it under the *Taxation Act*. However, this assignment is not binding on the government, and the Minister of Revenue is under no obligation to pay the amount assigned to the assignee. Moreover, such an assignment will create no obligation on the part of the government to the assignee, and the latter’s rights will be subject to all rights to compensation in favour of the government.

These changes will apply to assignments made after the day of the Budget Speech.

4.9 Information required on supporting documents in the metal recycling industry

A taxpayer operating a business may generally deduct the expenses incurred to earn business income from it. Moreover, the cost of the goods comprising a taxpayer's inventory is taken into account in determining this taxpayer's business income.

During audits of taxpayers working in the metal recycling industry, the MRQ noted that certain supporting documents contained incomplete or incorrect information. Consequently, after these audits, the MRQ sometimes considered that the expense to which the incomplete or incorrect supporting document applied should not be taken into consideration in calculating the cost of merchandise sold for the purpose of determining the business income generated by the metal recycling operation.

To correct this situation, the MRQ consulted representatives of the metal recycling industry. The different possible solutions studied would reassure industry interests with respect to their tax liabilities while ensuring the integrity of the Québec tax system. The solution selected will allow both of these objectives to be attained.

More specifically, the tax legislation will be amended to provide for an expense to be considered in the calculation of the cost of merchandise sold by a taxpayer operating a metal recycling operation only if a supporting document containing certain information deemed essential for the expense to be considered valid is completed.

Consequently, a taxpayer who, when operating a metal recycling business, acquires a good that will be included in his inventory must complete a supporting document containing the following information:

- the name, address, date of birth and social insurance number of the individual who delivered the metals;
- identification of the merchandise acquired, purchase price and method of payment.

The information relating to the name, address and date of birth of the individual who delivered the metals must be corroborated by an identification paper, and the supporting document must indicate which identification paper was used to corroborate this information. Moreover, the individual delivering the metals must sign the supporting document.

Moreover, if the individual delivering the metals is not the vendor, the vendor's name and address, and social insurance number or Québec business number, whichever applies, must also be indicated on the supporting document.

However, to be more precise, this measure will not apply to the acquisition of a good from a person who is registered under the Québec sales tax system and who has given his registration number to the taxpayer acquiring this good.

This measure will apply to the acquisition of goods made after the day of the Budget Speech.

4.10 Extension of the obligation to keep records to all individuals required to pay taxes

Under the current rules, anyone who operates a business or who must deduct, withhold or collect any amount under tax legislation must keep records and books of accounts.

The tax legislation will be amended so that this obligation also applies to anyone obliged to pay income tax.

This change will apply as of January 1, 2000.

4.11 Period for keeping computer files

Under the current rules, anyone required to keep records and books of accounts must generally keep them, along with any documents supporting the information they contain, for six years after the last year to which they relate.

The tax legislation will be amended so that this obligation also applies to anyone keeping electronic records.

Consequently, anyone keeping records, as required by tax legislation, by electronic means, must keep them in intelligible electronic form for the same length of time as records kept on paper.

However, the Minister of Revenue, according to the terms and conditions he deems acceptable, may exempt a person or category of persons from complying with this requirement.

These changes apply as of January 1, 1999.

4.12 Changes to ensure concordance with the Act to establish Fondation

The Budget Speech of March 25, 1997 announced that legislation governing the Fonds de solidarité des travailleurs du Québec (FSTQ) and the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (Fondation) could be amended to make certain real estate investments and certain foreign investments eligible, under certain conditions, for the application of their investment standards.

Changes have already been made to the *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)* to allow the FSTQ to avail itself of this greater flexibility. The *Act to establish Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* (Act to establish Fondation) will also be amended for this purpose. At the same time, the provisions of the Act to establish Fondation relating to sound business and financial practices will be harmonized with those applicable to the FSTQ and the other investment bodies governed by the *Securities Act*, which is administered by the Commission des valeurs mobilières du Québec.

Amendments will also be made to the Act to establish Fondation to allow changes to the date of its fiscal year-end and to the composition of its board of directors. Lastly, it will be specified that Fondation will have to respect its investment standards as of its fiscal year beginning June 1, 1999.

5. FEDERAL LEGISLATION AND REGULATIONS

5.1 Federal Budget Speech of February 16, 1999

On February 16, 1999, the federal Minister of Finance tabled, in the House of Commons, Supplementary Information, as well as a Notice of Ways and Means Motion to Amend the *Income Tax Act* and a Notice of Ways and Means Motion to Amend the *Excise Tax Act*. Québec's tax legislation and regulations will be amended to incorporate some of the measures announced. However, the measures will be adopted only after the approval of any federal law arising from these notices of motion or after the adoption of any federal regulation arising from the supplementary information, taking into account technical amendments that might be made prior to the approval of the law or the adoption of the regulation. The measures will apply on the same dates as for the purposes of federal income tax and the federal tax system.

❑ Measures retained

Québec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the measures relating to:

1. the income-splitting tax (BR 4 to 7);¹⁰
2. the taxation of non-resident trusts and foreign-based investment funds (BR 8);
3. the taxation of communal organizations (BR 11);
4. the introduction of a penalty for advising or participating in a false filing (BR 12 in part);¹¹
5. proceeds from an RRSP or an RRIF on death (BR 13);
6. the medical expense tax credit (BR 14);
7. the taxation of non-resident investment funds that engage Canadian service providers (BR 18 and 19);
8. the expansion of the list of devices or equipment prescribed for the purposes of the medical expense tax credit;¹²

10 The references in parentheses correspond to the number of the budget resolution in the Notice of Ways and Means Motion to Amend the *Income Tax Act* tabled on February 16, 1999.

11 This penalty, also proposed for the purposes of the goods and services (GST) and harmonized sales tax (HST) systems – Annex 7, Tax Measures: Supplementary Information and Notices of Ways and Means Motions tabled on February 16, 1999, pages 245 and 246 – will be retained for the purposes of the Québec sales tax (QST) system.

12 Annex 7, Tax Measures: Supplementary Information and Notices of Ways and Means Motions tabled on February 16, 1999, page 210.

9. the granting of a capital cost allowance for electrical generating equipment using flare gas.¹³

❑ Measures not retained

Some measures have not been retained because they do not correspond to the features of Québec's tax system or because Québec's tax system does not contain corresponding provisions. This applies to the measures relating to basic and spousal amounts (BR 1), the individual surtax (BR 2), the temporary capital tax surcharge on large deposit-taking institutions (BR 15), the manufacturing and processing tax rate reduction extended to the electrical generating sector (BR 16) and the exchange of taxpayer information (BR 20).

Other measures have not been retained because Québec's tax system is satisfactory in this regard. This applies to the measures relating to the Child Tax Benefit (BR 3), the Goods and Services Tax Credit (BR 9), retroactive lump-sum payments (BR 10), the introduction of a penalty in the context of tax shelters or other tax planning arrangements (BR 12 in part)¹⁴ and labour-sponsored venture capital corporations (BR 21).

An announcement will be made later with regard to the measure relating to the offsetting of interest on corporate tax overpayments and underpayments (BR 17).

5.2 News releases issued by the federal Department of Finance

5.2.1 News releases issued on December 10, 1998 and January 29, 1999

On December 10, 1998, the Secretary of State (International Financial Institutions) issued a news release (98-122),¹⁵ on behalf of the federal Minister of Finance, including a Notice of Ways and Means Motion proposing amendments to the *Excise Tax Act* with regard to the goods and services tax (GST) and the harmonized sales tax (HST), as well as draft regulations relating to the GST and the HST. On January 29, 1999, the Secretary of State issued another news release (99-010),¹⁶ announcing further details and refinements to two measures proposed in the Notice of Ways and Means Motion and the addition of certain organizations to the *Artists' Representatives (GST) Regulations*.

¹³ *Ibid.*, pages 215 and 216.

¹⁴ This penalty, also proposed for the purposes of the GST and HST systems – Annex 7, Tax Measures: Supplementary Information and Notices of Ways and Means Motions tabled on February 16, 1999, pages 245 and 246 – will not be retained for the purposes of the QST system.

¹⁵ The reference in parentheses corresponds to the number of the federal Department of Finance news release.

¹⁶ *Ibid.*

In accordance with the principle of substantial harmonization of the Québec sales tax (QST) and GST systems, Québec's tax system will be generally harmonized with the federal tax system, subject to Québec's specific features and taking the provincial context into account.

□ Legislative measures retained

The QST system will be amended to incorporate, with adaptations based on its general principles, the federal legislative measures relating to:

- exports by common carrier, drop-shipments and certain imports;
- sale-leaseback arrangements, supplies of leased property and supplies of ongoing services;
- barter clubs;
- real property supplies and rebates;
- second-language training services supplied by vocational schools and certain businesses;
- psychological services, hospital care services and services in respect of medical devices and prescription drugs;¹⁷
- public service body rebates;
- gaming industry transactions;
- filing period thresholds;
- tax disclosure requirements;
- tax adjustments by suppliers and general restrictions on rebates;
- bad debts;
- the sale of an account receivable;
- certain sales by provincial Crown agents.

¹⁷ The harmonization of the QST system with the GST system with respect to the exemption of speech therapy services was announced in ministère des Finances Information Bulletin 98-8.

☐ Regulatory measures retained

The QST system will also be amended to incorporate, with adaptations based on its general principles, the federal regulatory measures relating to:

- games of chance;
- place of supply;
- artists' representatives.

☐ Application dates

The harmonization measures retained will be adopted only after the approval of any federal law or the adoption of any federal regulation arising from news releases 98-122 and 99-010, taking into account technical amendments that might be made prior to the approval of the law or the adoption of the regulation. They will apply on the same dates as for the purposes of the federal tax system, except for the measures applicable since January 1, 1991, which, for the purposes of the QST system, will be effective July 1, 1992.

☐ Measures not retained

Some measures have not been retained because they do not correspond to the features of QST system or because Québec's tax system is satisfactory in this regard or does not contain corresponding provisions. This applies, on the one hand, to the legislative measures relating to *de minimis* financial institutions, to deemed trust rules and to the charges on the property of tax debtors and, on the other hand, to the regulatory measure concerning the federal book rebate.

5.2.2 News releases of December 15, 1998 and January 14, 1999

On December 15, 1998, the Secretary of State (International Financial Institutions) issued a news release (98-125),¹⁸ on behalf of the federal Minister of Finance, outlining draft amendments to the *Income Tax Act* with regard to the income tax consequences of the demutualization of life insurance companies. In addition, on January 14, 1999, the Secretary of State issued another news release (99-006)¹⁹ announcing modifications to this draft legislation.

18 The reference in parentheses corresponds to the number of the federal Department of Finance news release.

19 *Ibid.*

Québec's tax system will be amended to incorporate, with adaptations based on its general principles, most of the federal measures proposed in this regard. However, the measures will only be adopted after the approval of any federal law arising from this draft legislation, taking into account technical amendments that might be made prior to its approval. They will apply on the same dates as for federal income tax purposes. However, the provisions of the draft legislation amending non-resident income tax will not be retained because they do not correspond to the features of Québec's tax system.

5.2.3 News release of February 11, 1999

On February 11, 1999, the Secretary of State (International Financial Institutions) issued a news release (99-015),²⁰ on behalf of the federal Minister of Finance, announcing draft legislation to amend the *Income Tax Act* as a result of the tabling a bill that would permit foreign banks to establish specialized, commercially-focused branches in Canada.

The proposed tax rules are intended to ensure that Canadian branches of foreign banks, Canadian subsidiaries of foreign banks, and domestic banks are all taxed on a similar basis.

Québec's tax legislation will be amended to incorporate, with adaptations based on its general principles, most of the federal measures in this regard. However, the measures will be adopted only after the approval of any federal law arising from this draft legislation, taking into account technical amendments that might be made prior to its approval. They will apply on the same dates as for federal income tax purposes.

However, some measures will not be retained because they do not correspond to the features of Québec's tax system or because Québec's tax system does not contain corresponding provisions. This applies to the measures relating to:

- withholding tax on interest;
- capital tax under parts I.3 and VI of the *Income Tax Act*. In this case, however, the principles announced with regard to capital will be retained for the purposes of the capital tax applicable to foreign banks that have branches in Canada;
- the branch tax.

An announcement will be made later with regard to the measure relating to the foreign tax credit.

²⁰ *Ibid.*

5.3 Pension plan of certain pilots who belong to the Corporation of Pilots for and below the Harbour of Québec

In 1998, the federal Minister of Revenue accepted the pension plan of certain pilots who belong to the Corporation of Pilots for and below the Harbour of Québec (CPHQ) as a registered pension plan for the purposes of the *Income Tax Act*. Owing to the features of this plan, the *Canada Shipping Act* was amended on June 11, 1998 to incorporate certain tax provisions intended, notably, to clarify the status of the CPHQ and the nature of the amounts paid into the pension plan on behalf of eligible pilots.

Québec's tax legislation will be amended in this regard so that the tax treatment applicable to the CPHQ and to the amounts paid into the pension plan on behalf of eligible pilots is identical to that granted at the federal level. These amendments will apply on the same dates as for federal income tax purposes.

6. RECOVERY PLAN FOR THE HORSE-RACING INDUSTRY

Within the framework of the recovery plan for the horse-racing industry, certain changes should be made to the measures announced in the Budget Speech of March 31, 1998.

Following an agreement with Québec City, the Société de promotion de l'industrie des courses de chevaux (SPICC) inc. decided to proceed with the construction of a new racetrack in the Québec City region. Thus, the \$9 million in assistance granted by Loto-Québec, which had been announced for the financing of the modernization of the Hippodrome de Québec on the current ExpoCité site, will be increased to \$12 million to finance part of the SPICC's investment.

In addition, Québec City will receive \$2.5 million in compensation for the transfer of its horse-racing activities, which, henceforth, will be the responsibility of SPICC. To maintain jobs related to racetracks and to the horse-racing industry in the regions, and to strengthen the industry, special assistance of \$1 million per year will be granted to the Hippodrome de Québec and of \$300 000 per year to the Hippodrome de Trois-Rivières in fiscal 1999-2000 and 2000-2001.

All these measures will be financed using the sums allocated annually to SPICC, which correspond to the commission collected by Québec racetracks with respect to the video lottery machines located on their sites. The contribution for the construction of a new racetrack in Québec City will end with the extinguishment of the \$12-million debt contracted by SPICC.

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1. INVESTMENTS IN HEALTH

Additional investments in the health sector will total \$1.7 billion in 1998-1999 and 1999-2000.

ADDITIONAL INVESTMENTS IN THE HEALTH SECTOR (in millions of dollars)

	1998-1999	1999-2000	Total
Financial restructuring and consolidation plan for health institutions			
☐ Elimination of the network's debt	- 700	—	- 700
☐ Additional resources to stabilize the operation of the network	- 300	—	- 300
Sub-total	- 1 000	—	- 1 000
Additional resources to maintain and improve services	- 155	- 592	- 747
Total	- 1 155	- 592	- 1 747

Maintaining and improving accessibility and quality of public health services in Québec is a priority for the Québec government. In this regard, the transformation of the health and social services network initiated in 1994-1995 was necessary to ensure the public continued access to quality services, more in keeping with its needs and at lower cost.

This major transformation, which was carried out within a very short time, involved adjustments which not all network institutions were able to carry out at the same pace.

To consolidate accessibility and quality of public services, the government will invest an additional \$1 billion as part of a financial restructuring and consolidation plan for health and social services network institutions. This investment is in addition to the amounts that will be needed, as of 1999-2000, to cover the wage and non-wage costs of institutions.

This plan will include the following components:

- \$700 million will be allocated to institutions in a deficit position to enable them to pay off the deficits accumulated in recent years;
- \$300 million will be allocated to cover the costs of the financial restructuring and consolidation of health and social services institutions.

The Minister of Health and Social Services will announce the details of this financial restructuring and consolidation plan for health and social services network institutions in the coming days.

Along with the additional investment of \$1 billion to be allocated to the financial restructuring and consolidation plan for health and social services network institutions, a further \$747 million will be injected over two years to maintain and improve health services. Of this amount, \$15 million will be used, starting in 1999-2000, to boost the efforts of the ministère de la Santé et des Services sociaux to combat drug addiction, alcoholism and other problems affecting too many young people.

2. INVESTMENTS IN EDUCATION AND FOR YOUTH

2.1 Assistance for education funding

The additional investments the government will make in the education sector in 1998-1999 and 1999-2000 will total close to \$600 million including the impact of the measures of the 1999-2000 Budget Speech and the additional resources to maintain delivery of services.

ADDITIONAL INVESTMENTS IN THE EDUCATION SECTOR

(in millions of dollars)

	1998-1999	1999-2000	Total
Improvement in the financial situation of universities	- 170	—	- 170
Purchase of dictionaries, grammar and other books	- 30	—	- 30
Reform of education and others	- 7	- 47	- 54
Additional resources to maintain and improve the quality of education services	—	- 342	- 342
Total	- 207	- 389	- 596¹

¹ Including the amount of \$4.5 million allocated to the creation of summer jobs and internships for students in the public service, additional investments total \$600 million in education and for youth.

2.1.1 *Improvement in the financial situation of universities*

The accumulated deficit of the universities will amount to over \$300 million by the end of the 1998-1999 academic year.

An appreciable portion of this deficit is attributable to the retirement incentive programs implemented by the universities at the time the government was doing the same thing for the public service and the health and social services network.

To restore the universities' financial health and enable them to more adequately assume their duties in terms of teaching and research, they will be granted \$170 million in 1998-1999. This amount will be applied to pay off a portion of the deficits they accumulated in recent years, in particular because of retirement incentive programs. The appropriations of the ministère de l'Éducation will be adjusted by a corresponding amount.

Payment of the financial assistance to universities that have accumulated deficits will be tied to the submission of a plan to return to a balanced budget within a period of not more than four years.

The Minister of State for Education and Youth will announce the details of the plan to improve the financial situation of universities in the coming days.

2.1.2 Purchase of books for school libraries

In addition to what is already stipulated in the new policy on reading and books, and to enable elementary and secondary schools to have enough quality books, they will be granted an additional \$10 million in 1998-1999. The appropriations of the ministère de l'Éducation will be adjusted accordingly.

2.1.3 Purchase of dictionaries and grammar books for schools

Reference books are indispensable for students to learn and succeed at their studies. Accordingly, it is important that each elementary and secondary student have access to a dictionary and a grammar book.

To support the school reform, additional funding of \$20.4 million will be allocated to the ministère de l'Éducation in 1998-1999 to enable schools to quickly increase their purchases of these reference books.

2.1.4 Assistance for Cegeps to maintain a balanced budget

In 1998-1999, Cegeps received less funding from the Québec government. The reductions in funding reflected the retirement incentives designed to reduce Cegep payroll. For some Cegeps, funding was reduced even though the reductions in payroll did not materialize. Accordingly, these institutions are now faced with an effort which compromises the continuation of their balanced budgets.

To ensure the continued good financial health of Cegeps, an additional \$6.6 million will be granted in 1998-1999 to those which find themselves in the situation described above. As a result of this additional assistance, Cegeps will have the time they need to adjust their situation, without having to incur deficits that would be very difficult to reduce. The appropriations of the ministère de l'Éducation will be adjusted accordingly.

2.1.5 Other assistance measures announced by the Minister of State for Education and Youth

Many new initiatives costing a total of \$64.5 million over two years will be announced by the Minister of State for Education and Youth within the coming days.

2.2 Development of human resources in strategic sectors

Further to the economic development strategy and to raise the competitive capacity of Québec's economy at all levels, the development of human resources is crucial, in particular by increasing the adaptive capacity of the education system and guiding more young people to sectors with strong demand.

Many difficulties must be overcome to ensure that, in the future, Québec has manpower adapted to the needs of strategic sectors. First of all, a sufficient number of young people must be attracted to scientific and technical careers. Young people must also be encouraged to persevere and obtain their diploma within the stipulated time. Lastly, care must be taken to ensure that the supply of training matches the changing manpower needs of businesses.

2.2.1 Initiatives to remedy labour shortages in information technologies

Currently, there is not enough qualified labour in the information technologies sector.

To correct this situation, the government will provide \$24 million over two years to train students in new information technologies, as part of projects submitted by colleges and universities. The objective is to double within six years the number of college diplomas and bachelor's degrees in this field.

Projects submitted must demonstrate how they contribute to overcoming the labour shortage. They must also show the methods that will be used to increase the number of students enrolled and improve their perseverance, and make available to them the resources needed for quality training.

The funding provided will be applied to encourage students to complete their studies, within the time stipulated, by providing bursaries of up to \$3 000 per graduate. It will be used to improve funding for operating expenditures caused, at the university level, by the increase in student enrolment. If need be, the measure will also help finance the acquisition of computer equipment.

At the college level, the diplomas targeted are in electronics, in electronics technology, in industrial electronics technology, in computer systems technology, in electronic design technology, in physics technology, and in computers.

At the university level, the diplomas concerned are bachelor's degrees in computer science, in computer systems and computer architecture, and in electrical, electronic and communications engineering.

This measure will also apply to college studies diplomas and bachelor's degrees in multimedia and software engineering.

Approved projects must have measurable objectives and will be monitored systematically by a committee of representatives of the ministère de l'Éducation and the industry.

The appropriations of the ministère de l'Éducation to fund these projects will amount to \$10 million in 1999-2000 and \$14 million in 2000-2001.

2.2.2 Support for Cegep students in scientific and technical careers

The government will allocate \$1 million a year over the next two years to fund projects submitted by colleges to improve persistence in programs leading to scientific and technological careers, and to raise the graduation rate of students initially enrolled in natural sciences. The appropriations of the ministère de l'Éducation will be adjusted accordingly.

A college will receive an amount which, on average, may reach \$15 000 a year. This amount will be adjusted to reflect the college's enrolment.

To qualify for this financial support, projects must propose activities which place newly enrolled students in natural sciences in contact with individuals with an established career in the science and technology community, to provide them with a better understanding of the contribution of each scientific discipline in their training. In addition, it must be possible to measure the results of the project.

2.2.3 Funding for peer tutoring

To increase the number of college graduates and given that some students learn more readily from their peers, the government will provide funding for projects to recruit college students to tutor students encountering difficulties. Appropriations of \$1.5 million a year over the next two years will be allocated to the ministère de l'Éducation for this purpose.

To be eligible for financial support, a project must propose learning support activities in programs in which the graduation rate is low, particularly those directly relating to science and technology. The proposal must also include a timetable for implementation, testing and assessing results.

Each project must show that it will assist "high-risk" students starting in their first term at college and recruit the tutors in the best position to help them. It must also include training for student tutors, conditions for recognition of their training and a system for supervising students. Lastly, systematic follow-up of students receiving assistance, based on their success in their courses, must be implemented.

The administrative costs plus the wages of the student tutors may vary from one college to another. The measure will help create 900 part-time jobs for college students. The ministère de l'Éducation will specify the details relating to the use and remuneration of the tutors.

2.2.4 Funding for short training programs

In the March 31, 1998 Budget Speech, an amount of \$4 million was stipulated over two years to fund the development and promotion of short training programs at college and university. The appropriations allocated to the ministère de l'Éducation for this purpose were \$1.3 million in 1998-1999 and \$2.7 million in 1999-2000.

This measure has been very successful to date, but has not fulfilled its potential concerning programs in sectors which require computer equipment.

The government will add \$5.5 million over the next two years to develop and promote short training programs. The budget stipulated for 1999-2000 will be increased by \$1.5 million. In addition, this measure will be renewed in 2000-2001 with a budget of \$4 million. Furthermore, the program will be broadened to enable the financing of computer equipment when the purchase of such equipment is shown to be necessary to open new programs. A maximum of \$30 000 per program will be provided for this purpose.

An annual amount of \$600 000 per year will be allocated from these funds to a promotion campaign aimed at businesses and educational institutions to ensure that the measure's objectives are achieved.

2.3 Summer jobs and student internships in the public service

For many students, obtaining a summer job or an internship is essential, in financial terms, to pursuing their studies. In addition, the experience acquired through a summer job or an internship is an important asset in searching for a job upon graduating.

The Québec public service provides a pool of quality summer jobs and internships for students. In the 1997-1998 and 1998-1999 budgets, the government boosted the public service's contribution to the supply of such jobs and internships.

In this budget, the government reiterates its support for young people and announces that the amount allocated to hire student interns and to create summer jobs for 1999-2000 will be maintained at \$8.1 million. For this purpose, additional appropriations of \$4.5 million will be granted to the ministère de l'Industrie et du Commerce for the coming year.

Changes will also be made to the program's standards to enable summer internships.

The \$8.1-million budget will allow government departments and organizations to accept 1 850 students for summer jobs and 500 interns over the coming year.

3. GREATER JOB CREATION EFFORTS

3.1 Investments to accelerate the shift to the knowledge-based economy

3.1.1 *Innovation Québec*

Under the Minister responsible for Research, Science and Technology, the Innovation Québec fund, with a budget of \$75.2 million over two years, will be a powerful instrument for promoting partnerships in research and innovation.

The Innovation Québec fund will have four objectives:

- develop and maintain in Québec a scientific research base of international caliber;
- contribute to the training of the scientific and technical personnel needed by businesses, universities and research centres to maintain Québec's capacity for scientific research and innovation;
- promote and support partnerships between government departments and public organizations, the university community and the business community;
- develop commercializable applications for R & D and innovation.

The Minister responsible for Research, Science and Technology will release the details of Innovation Québec's activities in the days ahead.

3.1.2 *Valorisation-Recherche Québec*

To capitalize on Québec's university knowledge, a grant of \$100 million will be made in 1998-1999 to Valorisation-Recherche Québec, an independent organization set up for this purpose.

The funds will be paid to Valorisation-Recherche Québec to:

- encourage efforts to capitalize on knowledge by contributing to the financing and commercialization of results of university research;
- contribute to the financing of projects of multidisciplinary or multi-sector university research teams arising from the concerted action of university researchers among themselves and with researchers of government, public, parapublic or private research teams.

The Minister responsible for Research, Science and Technology will release the details of the grant awarded to Valorisation-Recherche Québec and its mission within the coming days.

3.1.3 Creation of the Centre Emploi-Technologie (CETECH)

One of the basic features of an innovating society is the speed at which its needs for skilled manpower change. Matching training with the needs of businesses, and guiding young people towards trades and professions with strong demand are two essential conditions for the efficient operation of Québec's innovation system.

The information available on the supply of and demand for skilled manpower suffers from significant shortcomings. It is often inadequate and is scattered among many government departments and organizations.

The government will provide Emploi-Québec with \$2 million a year over the next two years to set up a research team specially mandated for this purpose. This team, called "Centre Emploi-Technologie (CETECH)", will be part of Emploi-Québec and supervised by a policy and action committee consisting of representatives of the stakeholders concerned.

The Centre's primary mission will be to develop detailed knowledge, continuously monitor and maintain a dynamic watch on the market for highly skilled jobs. In particular, it will cover the scientific and technical manpower needs and staff levels in strategic sectors for the development of an innovation economy, particularly emerging trades and professions and those relating to computer science.

The Centre may also carry out work on the impact of the dissemination and use of technology on employment and skills in demand.

It must ensure that the results of its work are communicated to a wide audience using a form and a style that are readily accessible to various target groups: technology businesses, workers, job seekers, students choosing a career, colleges, universities, government departments and public organizations, etc.

The Centre will receive its mandates from its policy and action committee. This committee has a two-pronged justification. As a policy committee, it will see that CETECH is solidly anchored in the science and technology community and is attentive at all times to the latest trends in technology and skilled manpower. As an action committee, it will encourage the initiatives it deems appropriate regarding highly skilled manpower.

The committee will be chaired by Emploi-Québec. It may include representatives from the business community, education institutions, Investissement-Québec and the government departments concerned, in particular the future ministère de la Recherche, de la Science et de la Technologie, and other partners to be identified.

Initially, the Centre will consist of a team of eight people. Its funding will be provided through an increase in the appropriations of Emploi-Québec of \$2 million a year for 1999-2000 and 2000-2001. Emploi-Québec may add a further financial contribution subject to approval by the Commission des partenaires du marché du travail. Other government departments or organizations may also give specific mandates to the Centre and contribute to its financing.

3.1.4 Support for innovation and advanced practices in SMEs

The innovation component of the Impact-PME program is designed to provide businesses with support for hiring scientific personnel. This measure supplements this assistance. It provides support for strategic activities, in particular regarding management, technology transfer and improvement of SMEs' products and production processes.

☐ Eligible businesses

Eligible businesses are legally constituted businesses with no more than 250 employees, excluding, in particular, businesses in the retail trade and personal services sectors.

☐ Eligible activities

Eligible activities include an assessment of the business, a technological assessment and formulation of a comprehensive innovation strategy. They also include:

- planning and implementing advanced practices relating to:
 - design;
 - quality;
 - technology transfer;
 - adapting the business to the requirements of sub-contracting;
 - market watch;
 - re-engineering of administrative processes and management information systems;
 - reorganization of work;
 - structures for concerted action;
 - e-commerce.
- appropriation of specialized technical knowledge and know-how with a view to acquiring, installing and using machines, equipment and intermediate goods;

- planning a research and development project. However, the assistance provided in this regard is geared to a business that does not carry out R&D on a regular basis, i.e. a business which does not claim or has not claimed the tax credit for R&D or the equivalent super-deduction for any of the three years preceding the application for assistance under this program.

☐ Eligible expenditures

Eligible expenditures result from a contract with resources outside the business and correspond to professional fees and expenses for expertise or specialists. They represent 80% of the professional fees and expenses for expertise or specialists. However, they exclude expenditures eligible for the tax credit for technological adaptation services.

☐ Type of assistance

The assistance provided covers 40% of the value of expenditures carried out by a business regarding eligible activities. A business may receive maximum assistance of \$10 000 for an assessment or for a comprehensive innovation strategy, and a maximum of \$15 000 for planning and implementing eligible activities.

A business may receive assistance under the program for several eligible activities simultaneously or consecutively. However, total assistance may not exceed \$100 000 over a period of three years.

The government will allocate \$5 million to the ministère de l'Industrie et du Commerce for this measure in 1999-2000 and \$8 million in 2000-2001.

3.1.5 *Innovations in wood material processing and commercialization*

An envelope of \$4.9 million over four years will be allocated to various initiatives to support technological innovation in terms of adding value to wood material. It will be applied to research, adaptation of sawmills and forest equipment, and to the marketing of wood products outside Québec.

It is estimated that 15 sawmills will benefit from this program. One of the objectives is to make investments designed to reduce the rate of wood chip production. Assistance granted may reach 50% of eligible expenditures.

In addition, financial assistance of up to 40% of the cost of “research and development”, to a maximum of from \$40 000 to \$750 000 depending on the type of project, will be provided under the technology management program for the adaptation of equipment.

The research and development program already in progress under an agreement with the Forintek Canada Corporation will be continued. Lastly, the contracts of the trade delegates in Japan will be extended.

The appropriations of the ministère des Ressources naturelles will be adjusted accordingly, by \$2.5 million in 1998-1999 and by \$800 000 for each of the following three years.

3.2 Improved support for investments by businesses

3.2.1 *Private Investment and Job Creation Promotion Fund (PIJCPF)*

In 1998-1999, the Private Investment and Job Creation Promotion Fund (PIJCPF) received a five-year commitment envelope of \$500 million. This envelope is raised to \$800 million including \$250 million for the period from March 10, 1999 to March 31, 2000 and \$100 million for the years 2000-2001 to 2002-2003. This increase will necessitate additional appropriations of \$50 million in 1999-2000 and in 2000-2001.

The Minister of Finance will distribute the commitment envelope among the various components of the program. He will set specific results objectives for the board of directors of Investissement-Québec, including an annual maximum commitment amount.

The norms of the PIJCPF program will be changed and a new form of assistance will be added to offer businesses which carry out an investment project an exchange rate guarantee between the Canadian dollar and the US dollar.

□ Changes to the norms of the PIJCPF program

The PIJCPF program will be changed as follows:

- a reimbursement clause will be added to all grants made under the PIJCPF unless the board of directors of Investissement-Québec decides otherwise, particularly in the case of a project involving substantial economic spin-offs or which may be carried out outside Québec. These reimbursements will generally depend on the increase in the operating profits of the business after the project has been carried out. They may also consist of royalties on sales or any other method acceptable to Investissement-Québec. The reimbursement formula will be developed jointly by the ministère des Finances and Investissement-Québec, and a maximum of 10% of reimbursements will be retained by Investissement-Québec;

- if the financial assistance depends on the number of jobs created, it will be limited to 15% of payroll for the first three years for jobs created during the first two years;
- the investments needed to maintain the assets of a business will be explicitly excluded from eligible expenditures.

These new provisions will apply to all projects authorized after the regulatory amendments come into force.

☐ New financial instrument: exchange rate guarantee

The PIJCPF program was implemented to stimulate private investment in Québec. Some investment projects which focus on the export market are heavily exposed to fluctuations in the exchange rate between the Canadian dollar and the US dollar. Well-established businesses can use financial instruments to protect themselves against such changes. However, young businesses may not be able to adequately protect themselves against changes in the exchange rate.

A new financial instrument will be added to the PIJCPF program to improve the ability to sustain private investment projects, while minimizing costs for the government.

The PIJCPF program will be changed to include the possibility of offering businesses an exchange rate guarantee. In practical terms, a business will have to agree to pay Investissement-Québec a pre-determined amount in US dollars at set dates. In return, Investissement-Québec will undertake to pay the business a pre-determined amount of Canadian dollars at set dates, it being understood that the exchange rate will be set at the time the contracts are signed.

The main details of this new form of assistance under the PIJCPF program are as follows:

- eligible projects:
 - investment projects must meet the definition in the regulations;
 - sales in US dollars must represent at least 50% of the project's expected annual sales;
- the portion of projected income in US dollars covered by the exchange rate guarantee will depend on the security obtained;
- the assistance will last for a maximum of 10 years;

- if the income in US dollars is less than projected, the business will have to purchase US dollars on the market for payment to Investissement-Québec;
- the contract must stipulate a cancellation clause in the event of bankruptcy;
- Investissement-Québec will charge management and guarantee fees in accordance with the provisions stipulated in the regulations.

All the losses Investissement-Québec may incur under this new form of assistance of the PIJCPF program will be assumed by the government and any potential gains by Investissement-Québec will be deducted from claims against the government.

In addition, to protect itself against potential losses, the government will record an allowance for losses, equal to 25% of the risk incurred, as an expenditure.

3.2.2 Support for concerted action by businesses

Québec adopted the industrial concerted action approach almost ten years ago. Sectoral committees are a major instrument for meeting the challenges of competition and globalization. In its ongoing support of concerted action, the government will allocate \$1.5 million to the ministère de l'Industrie et du Commerce in 1999-2000 and \$3.5 million in 2000-2001.

The amounts allocated to the *Fonds de partenariat-Volet Concertation* program will help support the activities of existing sectoral committees, initiate concerted action in emerging sectors and restructure the assistance process.

3.2.3 Support for the implementation of a Centre de tests et d'homologation des logiciels

The use of computer software in the production of goods and services is now standard practice and is even unavoidable. Users wishing to acquire such software must be assured of its reliability. As this trend will gather momentum in the years to come, Québec must be able to count on a software industry that develops top-quality products recognized on international markets.

To encourage businesses to improve the quality of their products and consolidate their position on increasingly competitive markets, the Centre de recherche informatique de Montréal (CRIM) will set up a Centre de tests et d'homologation des logiciels (CTHL), or software certification and testing centre.

The CTHL, which will be placed under the authority of CRIM, will provide software producers with expertise and tools to check the quality of their products and, if need be, improve them using recognized software engineering techniques. It will become a reference organization for software quality and development standards. Products that have been tested or certified by the CTHL may be officially recognized with a seal of quality. To date, there are only two such centres of any significance in North America, both of them in the United States.

To encourage the development in Québec of quality products and secure their international recognition, the government will support this initiative and provide a financial contribution of \$2 million over three years for the CRIM's project. This funding will consist of appropriations of \$800 000 in both 1999-2000 and 2000-2001, and of \$400 000 in 2001-2002 to the future ministère de la Recherche, de la Science et de la Technologie.

3.3 Creation of the Montréal Foreign Trade Zone at Mirabel

Some \$6 million is earmarked in 1999-2000 for the creation of the Montréal Foreign Trade Zone at Mirabel.

The government will create the Société de développement de la Zone de commerce international de Montréal à Mirabel to support investors wishing to establish themselves in the foreign trade zone, to offer businesses a one-stop multi-service centre, and to structure the government's activities in the foreign trade zone (see Section 2.2 of the revenue measures). The Société de développement, which will have a simple, flexible structure, will act as a focal point for cooperation and concerted action among the main stakeholders involved in the development of the foreign trade zone, those in the Mirabel region as well as those in Greater Montréal.

The Société de développement will also administer a program of loan guarantees and interest relief on lines of credit to mitigate the impact of the limitations inherent in Canadian customs legislation on the working capital of businesses. This program will enable businesses in the foreign trade zone to enjoy benefits that compare with those offered in foreign customs free zones. In addition, the Société de développement will provide a number of specialized resources in the management of customs programs to offer consulting assistance for businesses during their implementation and start-up phases.

The Société de développement will also be responsible for formulating recommendations to the Minister of Finance concerning the granting of assistance for the construction of buildings and assistance for carrying out feasibility and profitability studies for projects in the foreign trade zone.

Assistance for the construction of buildings by businesses for which an eligibility certificate for the Montréal Foreign Trade Zone at Mirabel has been obtained from the Minister of Finance or by third parties for subsequent leasing to eligible businesses may consist of:

- guaranteed repayment of up to 70% of the net loss relating to a financial commitment that may not exceed 75% of the value of the building;
- assumption of the interest on a loan;
- a refundable or non-refundable contribution;

The financial assistance must take account of international trade agreements and be limited to the amounts needed to ensure that the project is completed. The budgetary impact of this financial assistance may not exceed 25% of the value of the building for which assistance is provided. However, if the building is constructed by a third party, the budgetary impact of the financial assistance is limited to 20% of the building's value.

Losses relating to the financial assistance provided under this measure will be assumed by the government. For each instance of financial assistance provided in the form of a loan or loan guarantee, the government will have to record an allowance as an expenditure to provide for potential losses. As consideration, the client will be charged the usual guarantee fees.

In addition, assistance will be available for the reimbursement, for an eligible business, of no more than 50% of the costs of a feasibility or profitability study of the project, to a maximum of \$100 000.

Businesses will also be able to claim technical and financial assistance adapted and tailored to their needs for recruiting, training and human resources management. An Emploi-Québec office will be opened at Mirabel airport for this purpose. In particular, Emploi-Québec will provide financial assistance for training newly-hired workers following the creation of long-term jobs.

Lastly, from the amount earmarked for the foreign trade zone in 1999-2000, a budget of \$500 000 will be allocated to the ministère des Finances for the administration of the new initiatives, to advise the Minister regarding the issuing of eligibility certificates, and to audit and monitor businesses. This budget will be raised to \$1 million for subsequent years.

3.4 Opening to the world

3.4.1 More support for exporting SMEs

The government supports SMEs that have yet to begin exporting by providing assistance for training, preparing an international business plan, and planning and carrying out the initial steps in developing foreign markets. The assistance also applies to projects whose scope or complexity sets them apart from normal prospecting and market development activities.

Businesses or groups of businesses in all sectors of economic activity, with the exception of retail trade and personal services, are eligible for the program, called *Impact-PME – Volet développement des marchés d'exportation*. Eligible expenditures involve preparatory steps, special projects, as well as promotion and market prospecting in other countries.

Currently, for the steps preparatory to exporting, as well as promotion and market prospecting activities in other countries, eligible businesses must have annual sales of less than \$10 million. From now on, this criterion will be based on the number of employees, i.e. no more than 250. In addition, the maximum annual assistance per business will be raised from \$10 000 to \$15 000.

To encourage SMEs to undertake export activities, additional funding of \$1.5 million in 1999-2000 and \$3.5 million in 2000-2001 will be granted to the ministère de l'Industrie et du Commerce.

3.4.2 Québec's Decade of the Americas

While the 1990s have been a decade of success for Québec in the United States, the government has set an objective to make the next decade the decade of the Americas so that Québec becomes a major player in the future hemispheric free trade zone.

The objective of *Québec's Decade of the Americas* is to raise the number of businesses exporting to Latin America and the Caribbean from 300 to 1 000. Sales of Québec goods and services should increase by an average of 10% a year in this region of the world, to reach \$2.6 billion by 2010.

To achieve the objectives of *Québec's Decade of the Americas*, the ministère de l'Industrie et du Commerce will be allocated additional resources to promote Québec's exports, and the network of Québec's representatives abroad, administered by the ministère des Relations internationales, will be strengthened.

□ Export promotion

The funds allocated to the ministère de l'Industrie et du Commerce will be applied to promote Québec's exports to Latin America and the Caribbean. They will provide financial support for organizing grouped activities and missions, opening Québec product demonstration centres, bringing buyers to Québec and penetrating the network of major Latin American and Caribbean decision-makers.

Eligible businesses will be businesses and groups of businesses selling goods and services with an establishment in Québec that are already actively exporting and are ready to penetrate the Latin American and Caribbean markets or to intensify their activities on these markets.

In all cases, the financial participation of businesses must exceed 50% of total costs.

☐ Strengthening and redeploying Québec's representation

To support *Québec's Decade of the Americas*, Québec will strengthen and redeploy its representation in this region.

The resources of Québec's Délégation générale in New York will be increased, and its representation in Boston and Chicago will be bolstered. A delegation will be opened in Buenos Aires, Argentina, and a bureau in Santiago, Chile.

In the medium term, the government plans to be represented in Sao Paulo, Brazil.

To finance *Québec's Decade of the Americas*, the appropriations of the ministère de l'Industrie et du Commerce will be raised by \$2 million in 1999-2000 and \$3 million in 2000-2001. Those of the ministère des Relations internationales will be increased by \$3 million in 1999-2000 and \$3.7 million in 2000-2001.

3.4.3 Office Québec-Amériques pour la jeunesse

The Office Québec-Amériques pour la jeunesse, or the Québec-Americas youth bureau will be created in the wake of the government's initiatives for *Québec's Decade of the Americas*. This organization will enable young people in Québec to gain a better understanding of the Americas, thus facilitating their cultural, professional and linguistic development.

The organization's projects will initially concentrate on high-priority regions: Mexico, the northeastern United States and Louisiana. They will be geared to people 18 to 35.

For this purpose, the budget of the ministère des Relations internationales will be increased by \$250 000 in 1999-2000 and by \$1 million in 2000-2001.

3.4.4 Representation in Shanghai

Québec must further develop its ties with countries which, like China, are on the way to becoming significant markets for its exports. With the return of Hong Kong to China, Shanghai will play a growing role as a financial centre.

Accordingly, the appointment of a representative of Québec in this city can make a major contribution to the development of trade relations between Québec and China. Additional funding of \$400 000 a year will be allocated to the ministère des Relations internationales in 1999-2000 and 2000-2001 for Québec's representation in Shanghai.

3.4.5 *Hosting foreign personalities*

To improve knowledge of Québec society in other countries, the Québec government will encourage the organization of get-togethers and stays in Québec for foreign personalities from the academic, media, economic and cultural fields.

Such meetings will help establish personal contacts between Québec and foreign personalities and enable Quebecers to gain access to international networks.

Consequently, additional funding of \$400 000 in 1999-2000 and \$500 000 in 2000-2001 will be allocated to the ministère des Relations internationales.

4. REGIONAL AND LOCAL DEVELOPMENT

4.1 Investments in the wake of the ice storm

4.1.1 Improvement of the special program of financial assistance for damage to woodlots

A special financial assistance program was introduced last year to help some 30 000 woodlot owners affected by the ice storm of January 1998 to restore their woodlots. The financing for this program is shared between the Québec government and the federal government.

To date, only private woodlot owners who derive most of their income from logging operations on their woodlots have been able to obtain financial assistance for forest restoration and rehabilitation work.

Henceforth, silvicultural work carried out on behalf of the owners of woodlots covering four hectares or more for whom logging is not their main source of income, including farm operators, will be eligible for assistance. This initiative will make it possible to restore forests with a view to ensuring sustainable forest management and avoiding risks for individuals and communities.

The Québec government will incur costs of \$14 million over four years in improving this program. Negotiations will be conducted with the federal government to ensure that it covers its fair share of the costs.

Financial assistance of \$4.2 million will be allocated by Québec in 1998-1999 and 1999-2000. Assistance for fiscal 2000-2001 will amount to \$4.5 million.

4.1.2 Improvement of the special program of financial assistance for damage to farming operations

A special program was introduced in 1998 to provide farm businesses with financial support to help them cover the cost of damage caused by the ice storm of January 1998. The financing for this program is shared between the Québec government and the federal government.

Under this program, individuals who operate a farm on a part-time basis do not receive full compensation, contrary to their colleagues for whom farming is their main source of income. Most of the individuals in the first category operate maple farms. To ensure fair treatment for the different categories of farming operations and to avoid jeopardizing the viability of these businesses, individuals who operate a farm on a part-time basis will henceforth be granted full compensation for eligible expenditures under this program, entailing additional costs of \$8.3 million.

Furthermore, at present, damage to farm buildings is not covered by the program. From now on, all farm operators will be fully compensated in this regard, generating costs of \$3.3 million.

The Québec government will incur costs of \$8.9 million in 1998-1999 in improving this program. Negotiations will be conducted with the federal government to ensure that it covers its fair share of the costs.

4.2 Transportation investments

4.2.1 Acceleration of work on the Greenway

The Greenway is a project for the construction of a bicycle path nearly 4 000 kilometres long linking all regions of Québec. To accelerate the construction of this path, an additional \$18 million will be earmarked for this project over the next five years. An amount of \$2 million will be invested in 1999-2000 and \$4 million will be allocated annually over the following four years. These investments are in addition to the sums granted by the ministère des Transports under its regular programs.

The Minister for Transport will specify the details of this program shortly. One of the eligibility criteria will be the projected hiring of young people to carry out the work, when possible.

4.2.2 Support program for railway companies of local interest (RCLIs)

A program with a budget of \$19 million over five years for the rehabilitation and restructuring of secondary railway lines and the construction of infrastructures for lines with intermodal potential is introduced. The purpose of this program is to promote the preservation or re-commissioning of railway infrastructures and to revitalize this mode of transport in order to ensure that it complements other modes.

Eligible projects will be aimed at rehabilitating tracks and structures, excluding regular maintenance work, at building side tracks and industrial spur tracks and at erecting a trans-shipment centre.

An amount of \$3 million will be invested in 1999-2000 and raised to \$4 million for each of the following four years. The Minister of Transport will explain the terms and conditions of this program later.

4.2.3 Increase in road investments

The level of investment authorized for the Road Network Preservation and Improvement Fund (RNPIF) currently amounts to \$644 million. A further \$35 million will be added to this envelope, bringing investments for 1999-2000 to \$679 million.

The additional envelope of \$35 million will be used to accelerate the preparation of projects for extending Autoroute 30 and redesigning the autoroute Métropolitaine. It will also be used to improve the quality of road infrastructures near Québec's borders and to repair roadways.

Part of the work will be amortized over the useful life of these infrastructures. In 1999-2000, the cost of the projects will be financed out of the appropriations of the ministère des Transports. Appropriations of approximately \$3 million per year will be added to the department's envelope beginning in 2000-2001.

4.3 Support for sustainable development

4.3.1 Support for the establishment of community businesses in the environment sector

One of the components of Québec's waste management action plan for the next decade concerns the development of a network of community businesses in the field of recovery and recycling.

An envelope of \$15 million will be allocated over five years to support the start-up activities of businesses in the social economy sector (environment component). The activities thus financed will include feasibility studies, the preparation of business plans, the fitting out of premises and the acquisition of equipment.

The Centres locaux de développement (CLD) network will be asked to manage the program, according to the guidelines established by the ministère de l'Environnement. This new investment is in addition to the sums already devoted by the CLDs to supporting businesses in the social economy.

The appropriations of the ministère des Régions will be increased accordingly, by \$3 million in 1999-2000 and 2000-2001.

Organizations that take advantage of this program will continue to have access to the various forms of government support for businesses, notably those designed to foster employment.

4.3.2 Broadening of the Contaminated Site Rehabilitation Program

The Contaminated Site Rehabilitation Program was created in 1997-1998 to deal with the most acute contaminated soil problems that blocking the revitalization of certain neighbourhoods and the economic development of Montréal and Québec City. Under this program, which is managed by the ministère de l'Environnement, \$80 million worth of rehabilitation work should

be carried out over a five-year period. The government is contributing \$40 million for this work, with \$30 million for Montréal and \$10 million for Québec City.

Since the beginning of the program in 1998, over \$12 million worth of rehabilitation work has been carried out mainly in Montréal. This work should lead to investments of over \$500 million and the creation of 800 permanent jobs.

Several municipalities in addition to Montréal and Québec City own sites which, if they were decontaminated, could be used for projects that would foster the economic development of these municipalities. Therefore, the present Contaminated Site Rehabilitation Program will be broadened to include all municipalities in Québec.

For this purpose, the envelope of this program will be increased by \$50 million, making it possible to carry out studies and work for an amount of \$100 million over five years. This contribution will be in the form of a direct subsidy or of a subsidy for debt service, depending on the cost of the rehabilitation project. Therefore, the appropriations of the ministère de l'Environnement will be increased by \$600 000 in 1999-2000, \$2.3 million in 2000-2001 and \$4.9 million per year once all projects have been completed.

4.3.3 Restoration of abandoned mining sites

An envelope of \$6 million is provided over three years to continue the restoration of mining sites that were abandoned at the end of mining operations and transferred back to the Québec government.

Most of these sites are located in the Abitibi-Témiscamingue region. The East Sullivan site, which is one of the most polluted sites in Québec, will be an action priority. The work to be carried out on the various mining sites, at an average cost of \$60 000 per hectare, consists of surveys, analyses and restoration activities.

To that end, the appropriations of the ministère des Ressources naturelles will be increased by \$2 million in 1999-2000 and the following two fiscal years.

4.4 One-stop tax assistance centre for businesses in the new economy

The government is creating a one-stop tax assistance centre for businesses in the new economy to ensure optimum support for their development. This initiative will simplify and accelerate current mechanisms for granting tax credits and loan guarantees aimed at securing the interim financing of these businesses.

For this purpose, the Bureau de développement de la nouvelle économie (BDNE) will be created to replace the Bureau des Centres de développement des technologies de l'information (BCDTI) of the ministère des Finances.

This initiative stems from the *integrated fiscal strategy for the knowledge-based economy* made public within the framework of the present Budget. This strategy presents the taxation policy directions favoured for supporting the development of the knowledge-based economy, and a series of new tax measures.

It also mentions that the government has introduced several tax measures in recent years for businesses in the new economy, namely, the tax credit for multimedia productions, the Centres de développement des technologies de l'information (CDTIs) and the Cité du multimédia. In the present Budget, the government is also announcing two new initiatives: the creation of the Centre national des nouvelles technologies de Québec (CNNTQ) and the Carrefours de la nouvelle économie (CNEs), or new economy centres, in all Québec regions.

These tax measures are currently administered by more than one department or organization. Experience shows that it would be much simpler for businesses to deal with a single government body in order to identify the measures to which they are entitled.

□ Responsibilities of the Bureau de développement de la nouvelle économie (BDNE)

The BDNE will assume all of the responsibilities currently shouldered by the BCDTI, namely, the issue of eligibility certificates in regard to the tax credits for CDTIs and the Cité du multimédia. In addition, it will henceforth be responsible for:

- issuing eligibility certificates in regard to the tax credits for multimedia productions, the CNEs and the CNNTQ;
- providing loan guarantees to secure the interim financing of all the tax credits for the knowledge-based economy.

With these new responsibilities, the BDNE will be able to act as a one-stop centre for tax assistance for businesses in the new economy. In addition, it will be required to promote measures, inform businesses, analyse projects submitted, and propose, among all of the tax measures applicable, those that would be most advantageous for these businesses.

For the purpose of administering the new measures introduced by the government, the current \$1-million budget of the BCDTI will be transferred to the BDNE and the latter will be granted an additional operating budget of \$1.2 million.

❑ Interim financing of tax credits for the new economy

Tax credits are claimed upon the filing of income tax returns. However, to allow businesses to benefit immediately from the tax assistance offered by the government, interim financing can be obtained for these tax credits under certain conditions. It takes the form of a government loan guarantee on the estimated amount of the refundable tax credit. In general, the amount guaranteed represents 80% of the loan granted to the business by a financial institution. The government thus facilitates the short-term financing of the activities of businesses in the new economy.

At present, the interim financing of these tax measures involves the intervention of the Société de développement des entreprises culturelles with regard to the tax credit for multimedia productions and of Investissement-Québec with regard to the tax credits for CDTIs and the Cité du multimédia.

To establish a one-stop tax assistance centre for businesses in the new economy, interim financing for the measures targeting such businesses may henceforth be provided by the BDNE.

For this purpose, the *Financial Administration Act* will be amended to allow the Minister of Finance to grant loan guarantees for the interim financing of tax credits for the development of the new economy. The budget of the ministère des Finances will be increased by \$3.5 million in 1999-2000.

4.5 Support for local communities

4.5.1 Support for regional development cooperatives

The Regional Development Cooperatives Assistance Program (RDC) is aimed at fostering entrepreneurship through a cooperative approach. It provides financial support for regional development cooperatives (RDCs), whose main mandate is to offer technical start-up services, promote cooperative ventures and support concerted action by cooperatives in the regions.

The sums allocated to the ministère de l'Industrie et du Commerce for this program will be increased by \$1 million in 1999-2000 and by \$2.5 million in 2000-2001.

4.5.2 *Bolstering the response capability of the Centres locaux de développement (CLDs) in less affluent regions*

The mission of the CLDs is to encourage all local stakeholders to join forces to promote economic and employment development in the territories under their authority. CLDs in less affluent regions do not have sufficient budgets to carry out all the responsibilities entrusted to them.

The government will ensure that the CLDs in these regions have the basic resources they need to fulfil their mandate. To ensure the involvement of local stakeholders, assistance will be granted on the basis of municipal participation in CLD financing. To that end, the budget of the ministère des Régions will be increased by \$3.9 million annually over the next two years.

☐ Assistance granted

The general socioeconomic development index established by the ministère des Régions makes it possible to divide CLD territories into quintiles, ranging from the most underprivileged to the most affluent. The amount granted to the least affluent CLDs will be divided up on the basis of this index.

In the case of RCMs whose municipalities already pay a contribution equal to or greater than 1 cent per \$100 of property wealth in 1998, the amount of assistance will be unconditional. For the other RCMs, additional government assistance will depend on whether these municipalities increase their contribution to at least 1 cent per \$100 of property wealth.

The intraregional distribution of the new envelope will be submitted to the Association des régions du Québec for comment before being approved by the Minister.

The Minister of Regions will announce shortly the amount of assistance granted to eligible CLDs.

4.5.3 *Developing entrepreneurship among young people in local communities*

Young people are the entrepreneurs of tomorrow. They not only ensure Québec's economic future but can contribute now to creating jobs. To promote the development of the full entrepreneurial potential of young Quebecers, the Québec government will increase the budgets available in CLDs for young entrepreneurs.

□ Support for business start-ups

The annual envelope currently available to promote the start-up of businesses by young people is \$3.3 million for the CLDs under the authority of the ministère des Régions and \$1.2 million for the CLDs under the authority of the ministère des Affaires municipales et de la Métropole. These envelopes will be increased by \$1.2 million and \$400 000 respectively per year for each of the next two years.

□ Assistance and follow-up for young promoters

Assistance and follow-up adapted to the needs of young entrepreneurs greatly increase the survival rate of fledgling businesses.

The government will grant the CLDs under the authority of the ministère des Régions and those under the authority of the ministère des Affaires municipales et de la Métropole \$1.4 million and \$600 000 respectively per year over two years for the assistance measures targeting young people who start up businesses and for the follow-up measures targeting recently established businesses.

Follow-up services can take several forms, notably business diagnosis, financial situation analyses and consulting services in marketing and human resources management.

Business assistance measures include:

- mentoring programs aimed at pairing young entrepreneurs with more experienced local entrepreneurs;
- the development of means for forging closer ties between the education and training networks and fledgling businesses.

4.5.4 Financial assistance for fisheries and aquaculture adaptation

With the decline in fishery resources, initiatives to diversify the development of these resources must be encouraged. All partners in the fisheries and commercial aquaculture sector have agreed on a master plan aimed at achieving specific results over the next five years. The government has endorsed this plan and would like to make a significant contribution to achieving its mobilizing objectives.

For this purpose, \$18 million will be awarded over the next four years, including \$3 million in 1999-2000 and \$5 million in 2000-2001. This assistance will make it possible to encourage promoters with innovative projects, be they in the Îles-de-la-Madeleine, Gaspésie or Côte-Nord regions. As a result, the development of wolffish and razor clam fishing and commercial scallop and mussel farming could be greatly accelerated. The

government will also contribute to the implementation of developmental projects, notably with regard to a technology-transfer network for freshwater fishing and the adaptation of the fishing fleet to the new situation in the fishing industry.

The appropriations of the ministère de l'Agriculture, des Pêcheries et de l'Alimentation will be adjusted accordingly.

4.6 Support for the Québec Capital

4.6.1 *Program to support the development of the Cité de l'optique for the Québec City region*

The photonics sector is undergoing spectacular growth and playing an increasingly important role in the high-technology industry. It is an emerging scientific field that includes, fibre optics, quantum optics, laser technology, opto-electronics, imaging and optical information processing.

The Québec City region has one of the largest concentrations of R&D in Canada in the field of photonics, and already benefits from the extensive expertise of dynamic, high-performance businesses and world-renowned research centres such as the National Optics Institute (NOI) and the Centre d'optique, de photonique et de laser of Université Laval. At present, nearly 1 500 jobs are related to this sector of activity in the Québec City region.

To bolster this role and make the Québec City region a world-scale hub of excellence in the optics field, the government will introduce a program to support the development of an optics centre, to be called the Cité de l'optique, for the Québec City region. This program will have a total envelope of \$11 million over three years, including \$3 million in 1999-2000 and \$4 million in 2000-2001 and 2001-2002. The purpose of this program is to position the Québec City region at the forefront of future developments with regard to the information highway and information and communications technology.

This program will have three components. The assistance granted will be related to projects in the photonics sector in the Québec City region that target:

- the implementation of research projects, by universities and research centres in conjunction with private enterprise, which focus on practical applications of photonics technology that can be commercialized;
- the development by businesses of new products or processes by that can be commercialized;
- the deployment of businesses and research centres in the photonics sector.

❑ R&D component

Universities and research centres in the Québec City region will be able to submit research projects, in conjunction with businesses, targeting practical and commercializable applications in the photonics sector.

Projects must last at least one year and no more than four years. Their main expenditures must be devoted to the remuneration of researchers and total \$500 000 or less.

Subsidies will cover up to 65% of eligible remuneration paid to graduate or post-graduate students, and up to 50% of all other eligible expenditures. An amount of \$3 million over three years will be allocated to this component.

❑ Commercialization component

To develop new processes or products, businesses in the Québec City region will be able to submit developmental pre-commercialization and commercialization projects. These projects may be carried out by the businesses themselves or in conjunction with other businesses, universities or research centres.

Subsidies will cover up to 30% of infrastructure expenditures and up to 50% of all other eligible expenditures. An amount of \$5 million over three years will be allocated to this component.

❑ Deployment component

Businesses and research centres in the photonics sector that wish to establish or expand their operations in the Québec City region will be able to submit projects and receive assistance for that purpose of up to \$5 000 per job created. An amount of \$3 million over three years will be allocated to this component.

❑ Implementation

A budget of \$3 million over three years will be granted to the future ministère de la Recherche, de la Science et de la Technologie (MRST) for financing the R&D component.

A budget of \$8 million over three years will be allocated to the ministère de l'Industrie et du Commerce (MIC) for financing the commercialization and deployment components.

■ Consultations

This government initiative is aimed at immediately positioning the Québec City region as a hub of excellence in the field of photonics. Consultations involving, notably, the Société Innovatech Québec et Chaudières-Appalaches are currently under way with the various parties involved in this sector. In the coming months, these parties will submit recommendations aimed at fostering conditions favourable to the development of the Cité de l'optique for the Québec City region. The government will study closely the proposals they submit and make the necessary adjustments, if any.

4.6.2 Support for the creation of the Carrefour des technologies de l'information et du multimédia in Québec City

The rapid development of new information and communications technologies (NICTs) in Québec has led to the emergence of numerous service organizations that support businesses in this sector of activity. These service organizations are active notably in the fields of made-to-measure training, expertise and technology transfers, impact studies and strategic, business and technology watch.

The purpose of the Carrefour des technologies de l'information et du multimédia (CARTIM), an initiative of the Centre francophone d'informatisation des organisations (CEFRIO), is to provide a physical site for assembling in Québec City the various parties involved in the NICT and multimedia field.

The aim of this project is to allow organizations that provide services to NICT and multimedia businesses in the Québec City region to offer these businesses, through a one-stop centre, a concentration of expertise to support their development. This project will also allow certain organizations presently located in Montréal to offer their services in the Québec City region.

To contribute to the establishment of CARTIM, initiate activities and encourage the organizations concerned to set up operations there, the Québec government will grant CEFRIO \$100 000 in financial assistance in 1998-1999. To that end, the corresponding appropriations will be allocated to the future ministère de la Recherche, de la Science et de la Technologie in order to finance this centre.

4.6.3 Fund for the development of tourism in the Québec City region

In 1996, the Québec government, in conjunction with the Office du tourisme et des congrès de la Communauté urbaine de Québec (OTCCUQ), created a fund for the development and promotion of tourism in the Québec City region with a budget of \$6 million over three years.

The tourism development fund has systematically increased the presence of the Québec City region on markets outside Québec and made it possible to take targeted action in niches such as winter activities and business tourism. The fund has generated total investments of over \$7 million in tourism promotion and been instrumental in securing investments of over \$30 million in tourism development.

The government is renewing this fund for an additional five years and earmarking to it \$10 million, including \$2 million per year in 1999-2000 and 2000-2001.

The Minister responsible for the Québec region will define the administrative details of this program in collaboration with the Minister for Tourism and regional tourism partners.

5. INVESTMENTS IN CULTURE

5.1 Financial assistance for Québec's cultural and artistic development

Consumer preferences, the small, segmented domestic market, the difficulty penetrating foreign markets and the increasing availability of cultural and artistic products in electronic media are all factors which make the financial position of cultural and artistic institutions more vulnerable. Although many of these institutions have succeeded in strengthening their financial bases in recent years, funding still remains a fundamental concern for many of them.

To stabilize the funding base of cultural and artistic institutions and to enable them to increasingly make their mark in Québec and abroad, the Québec government is announcing a \$25-million contribution in 1998-1999 to be used to:

- support the measures implemented by artistic and cultural organizations to eliminate their accumulated deficit;
- promote the creation of either endowment funds or development reserves;
- encourage the search for new sources of income, notably from the private sector.

The Minister of Culture and Communications will release at a later date the terms and conditions governing the use of this financial assistance.

5.2 Measures targeting cultural facilities

For some years now, the Québec government has helped to set up networks of cultural facilities which have improved access to cultural property and activities, highlighted Québec's heritage, developed regional cultural focuses and offered workers in the sector professional working conditions.

This year, the Québec government intends to invest \$10 million in assistance programs for cultural facilities and support programs for the restoration of cultural property administered by the ministère de la Culture et des Communications.

Thus, in the wake of the policy on reading and books, various measures can be implemented with respect to public and affiliated libraries, including completion of the network, renewal of facilities, maintenance of assets and updating to current standards. The program will also support the acquisition and improvement of facilities for crafts workshops in order to meet the specific needs of fledgling businesses and to adapt these workshops to new design and production technologies. Community media can also benefit.

Lastly, various restoration and renovation projects can be carried out in dissemination venues to improve access to them, increase their security and modernize them.

The corresponding funding will be allocated to the ministère de la Culture et des Communications in 1998-1999.

5.3 Restoration and preservation of Québec's religious heritage

❑ Additional financial assistance for the restoration and preservation of Québec's religious heritage

Since 1995-1996, the Québec government has implemented far-reaching measures to preserve Québec's religious heritage, slating a total of \$60 million for the restoration and preservation of churches, temples, synagogues, rectories and convents in recent years.

To date, more than 640 projects throughout Québec have been approved and approximately 460 specific projects completed, thereby generating work valued at more \$52 million.

Despite the large amounts already invested, needs remain substantial and many buildings whose heritage value is priceless are in urgent need of repair. Consequently, the Québec government intends to pursue and intensify its efforts to preserve this element of our cultural heritage. To this end, funding for the assistance program for the restoration and preservation of Québec's religious heritage will be increased by \$20 million.

Restoration projects will be carried out in conjunction with the Fondation du patrimoine religieux du Québec, a not-for-profit organization comprising representatives from the different religious traditions, mandated to preserve and enhance Québec's religious heritage.

The financial assistance in question will be paid in the form of subsidies for debt service. The budget of the ministère de la Culture et des Communications will be increased by \$800 000 in 1999-2000 and \$2 million in 2000-2001.

❑ Transformation of religious buildings

The drop in regular worship practices has led religious authorities to cut back with respect to their facilities, notably by merging numerous parishes. In the coming years, some 20 churches will be closed for this reason. Furthermore, the closure of numerous convents is also foreseeable given the aging of religious communities. Unfortunately, the demolition of these buildings often remains the only viable option due to the high cost of transforming them.

In order to preserve the heritage character of these buildings, an additional component will be added to the assistance program for the restoration and preservation of Québec's religious heritage for the transformation of buildings which will no longer be used for religious purposes in the coming years. To this end, funding of \$20 million will be allocated over the next four years.

The assistance awarded will be used to maintain the heritage character of buildings which must be recycled for other purposes. Thus, assistance can be granted to cover the cost of maintaining religious buildings which are no longer in use, until a project to recycle them is implemented, and the additional costs linked to preserving their heritage character, including the cost of project-related professional services. The terms and conditions of this new component will be announced by the Minister of Culture and Communications in the coming weeks.

The financial assistance in question will be paid in the form of subsidies for debt service. The budget of the ministère de la Culture et des Communications will be increased by \$200 000 in 1999-2000 and \$1 million in 2000-2001.

5.4 Special subsidy for the Orchestre symphonique de Montréal

The Orchestre symphonique de Montréal has been experiencing serious financial difficulties for years now. A considerable debt, a drop in concert attendance and the recent labour dispute between management and musicians have made a situation which was already fragile, precarious.

In order to allow the Orchestre symphonique de Montréal to continue to exist and to improve its financial position, the Québec government is granting it \$5 million in 1998-1999.

Moreover, to help maintain the excellence of this internationally renowned orchestra, the Quebec government is committing itself to increasing the annual subsidy paid to the Orchestre symphonique de Montréal by \$3 million as of fiscal 2000-2001.

The Québec government's special association with the orchestra is based on the exceptional nature of this organization, which enjoys world-wide acclaim. Both in terms of the level of public financing and the orchestra's national and international renown put it in the category of major cultural institutions which are Québec's ambassadors on the world stage. Appropriations that reflect this will be earmarked for the ministère de la Culture et des Communications.

5.5 Creation of the “Arts and the Community” program

A venue for expression and understanding differences, culture offers an alternative which has proven its merit in the field of social integration. In Québec, numerous significant examples—one of the most widely publicized of which is no doubt the Chorale de l'Accueil Bonneau—have shown how beneficial culture is to society and demonstrated the genuine support it offers marginalized groups. Such examples have led the Québec government to encourage alliances between culture and the community.

Consequently, the budget of the ministère de la Culture et des Communications will be increased by \$2 million in 1999-2000 and 2000-2001, in order to create the new program “Arts and the community”. The ministère de la Culture et des Communications will be in charge of the program, which will be managed in conjunction with the Conseil des arts et des lettres du Québec. The program is unprecedented in that it enables artistic organizations and the community to develop together. It gives artistic circles an opportunity to play an important social role, while the community supported can expect to see the reintegration of groups in difficulty, the strengthening of social cohesion and intercultural rapprochement. Projects can also target groups whose access to the arts and culture is limited, or encourage the public, notably young people, to engage in an artistic activity.

The assistance paid may not exceed 75% of the cost of projects submitted and must be used to pay the wages of artists and participants, the cost of materials and equipment, and production-related expenses.

5.6 Support for the Montréal Museum of Fine Arts Foundation

The Montréal Museum of Fine Arts Foundation recently launched a fund-raising campaign under the banner “A great museum for a great city”. The campaign objective is \$50 million, to be used for projects to improve the museum's infrastructure and strengthen its mission. The fund-raising campaign has the potential to be successful. The Québec government, wishing to be associated with this success, will award financial assistance of \$6 million to the Montréal Museum of Fine Arts Foundation.

This contribution will enable it to complete the acquisition of the Victorian houses on Montréal's rue Crescent. The corresponding budget is being allocated to the ministère de la Culture et des Communications in 1998-1999.

5.7 TV5 development plan

The international television station TV5 is a wonderful tool for cultural dissemination, particularly the dissemination of Québec culture among Francophone nations, and non-Francophone nations where many Francophiles interested in our cultures tune in to TV5.

Public financing for TV5 comes from the French government, the French-speaking communities of Belgium, Switzerland, Canada and Québec, and the Organisation de la francophonie.

However, TV5 must reposition itself internationally in order to consolidate the enviable position it has attained, particularly by improving its programming, increasing its viewer shares and modernizing its broadcasting equipment.

To promote the exporting of Québec programs to international markets via TV5 and economic spin-offs for the Québec audio-visual industry, the Québec government intends to increase its share of the financing of the consortium by \$1 million.

Consequently, an additional budget of \$1 million in 1998-1999 will be divided equally between the ministère des Relations internationales and the ministère de la Culture et des Communications.

5.8 Financial assistance for the Société de développement des entreprises culturelles (SODEC)

The budget of the ministère de la Culture et des Communications is being increased by \$800 000 in 1998-1999 to enable the Société de développement des entreprises culturelles (SODEC) to finance activities promoting Québec shows abroad.

6. OTHER EXPENDITURE MEASURES

6.1 Support for tourism development

6.1.1 *Festivals and major events in Québec*

Montréal, Québec City and many other regions of Québec have, over the years, earned an enviable reputation for festivals and major international events. The Montréal International Jazz Festival, Montréal World Film Festival, Québec City Summer Festival, Québec City Winter Carnival and Mondiale des Cultures de Drummondville, to name only a few, attract thousands of visitors to Quebec every year. These large-scale events generate major tourism spin-offs of tens of millions of dollars and thousands of jobs for the Québec economy.

In order to effectively support these undertakings and promote Québec on international markets, where the competition is increasingly keen, Tourisme Québec will coordinate efforts to support the various government departments and agencies and to coordinate an international strategy for the development and promotion of Québec's international festivals and events.

In order to better gauge the importance of this sector, the Québec government has slated \$200 000 for a joint study on the funding and economic spin-offs of festivals and major international events. A joint committee composed of managers of festivals and major events and representatives of the Québec government will be responsible for conducting this study. A report should be tabled with the Minister of State for the Economy and Finance and the Minister for Tourism. To this end, the budget of Tourisme Québec will be increased by \$200 000 in 1999-2000.

6.1.2 *Tourism development and promotion in Québec*

The tourism industry has the capacity for quick job creation at a low cost. To ensure the continued vigorous growth of its tourism industry, Québec must focus on developing its infrastructure and attractions, and enhancing its visibility among Quebecers.

The budget of Tourisme Québec will, therefore, increase by \$2.5 million as of 1999-2000 to foster the development and promotion of Québec products in Québec. Part of this amount will be used, notably, this year, to support the initiatives of tourism industry partners in the Gaspésie region.

6.1.3 *Tourism promotion on international markets*

Receipts from tourists from the U.S. and overseas contribute significantly to the development of the Québec tourism industry and job creation, particularly among people under age 25 throughout Québec.

In this regard, in the past year, Québec posted a major upswing in the number of American tourists due to increased promotional efforts on the U.S. market.

In order to increase international tourism receipts, the budget of Tourisme Québec has been increased by \$6.2 million in 1998-1999 for the promotion of Québec as a tourist destination on the U.S. and overseas markets.

6.2 Other measures

6.2.1 *New provision for fee-setting measures*

This Budget makes provision for the implementation of a new provision designed to acknowledge government departments' initiatives regarding fee-setting for users of their services.

The objective of this new measure is to:

- offset the additional expenses incurred by a government department to implement fees; or
- finance, in whole or in part, additional expenses considered priorities by the government and which can be recovered from service users via a fee.

The budget of the ministère des Finances will, therefore, be increased by \$10 million per year as of 1999-2000.

6.2.2 *Strengthening of the adapted work centres program*

Adapted businesses in Québec are not-for-profit organizations providing work for 3 100 people, more than 2 100 of whom, are persons with disabilities. To allow for the adequate financing of the 1 750 regular positions within the network of 41 existing adapted businesses and to index the wage subsidies linked to sector-based decrees, the transfer credits for the adapted work centre program of the Office des personnes handicapées du Québec will be increased by \$2.3 million as of 1999-2000.

Adapted businesses will thus be better equipped to create 500 more jobs for persons with disabilities who cannot otherwise enter the labour market.

Section 3

Financial Organization Measures

1. TRANSFER OF FUNDS FROM THE RETIREMENT PLAN
FOR SENIOR OFFICIALS (RPSO) 1
2. MONITORING AND FOLLOW-UP MEASURE FOR
GOVERNMENT AGENCIES AND ENTERPRISES 2

1. TRANSFER OF FUNDS FROM THE RETIREMENT PLAN FOR SENIOR OFFICIALS (RPSO)

The features distinguishing the Retirement Plan for Senior Officials (RPSO), from the Pension Plan for Management (PPM) make it preferable for the contributions of employees participating in these two plans to be deposited into separate funds.

Consequently, employee contributions to the RPSO will henceforth be deposited in the Consolidated Revenue Fund and recorded under government pension plans. Moreover, all retirement benefits will henceforth be paid out of the Consolidated Revenue Fund and recorded under that same fund. These deposits include:

- some \$102 million for amounts accrued at December 31, 1998;
- future employee contributions, at a rate of approximately \$3 million per year, and any amounts transferred from other retirement plans by these employees;
- future contributions by autonomous agencies for these employees.

Moreover, these amounts will then be transferred to the government's retirement plans sinking fund (FARR) to the Caisse de dépôt et placement du Québec (CDPQ) in keeping with the Minister of Finance's FARR deposit policy.

Under this policy, the government deposits an annual amount in FARR with the CDPQ which corresponds to its annual employer contributions to retirement plans, and the annual employee contributions are deposited in the Consolidated Revenue Fund, when the financial environment offers favourable conditions for borrowing on markets for this purpose.

2. MONITORING AND FOLLOW-UP MEASURE FOR GOVERNMENT AGENCIES AND ENTERPRISES

The major accounting reform announced in the last Budget Speech and implemented beginning in fiscal 1997-1998 has resulted in major changes to the government's accounting policies. In the wake of this reform, the government announced that 94 organizations, special funds and public enterprises were now integrated into the government's reporting entity. Since these entities had been established under different accounting policies, it was necessary to review the legal and financial structures of some of them with a view to adapting them to the requirements of public-sector accounting standards.

Consequently, the structures of organizations such as: Corporation d'hébergement du Québec (CHQ), the Régie des assurances agricoles du Québec (RAAQ), the Financing Fund, and Société d'habitation du Québec (SHQ) are being reviewed to ensure that they are included in the reporting entity in accordance with the categories of the new accounting policies.

Adding these entities to the government's reporting entity also requires a review of the budgeting, monitoring and accountability processes, because, henceforth, all of the financial actions and operations of these entities directly influence the government's financial results.

In order to ensure that the government will continue to achieve its financial objectives where fully consolidated organizations are concerned, the government departments will have to play a greater role in monitoring the organizations reporting to them and they will, henceforth, be accountable for their financial results. A management mechanism integrated into the management of program spending by the Secrétariat du Conseil du trésor had been set up in this regard for the organizations and special funds.

Enterprises newly integrated into the government's reporting entity affect the government's revenues, and it is important that their revenues be monitored by the ministère des Finances to integrate their operating results into those of the government in the same manner as those of the enterprises that have been integrated into the government's reporting entity since 1986. In addition to the changes announced in the last Budget affecting the CHQ, SHQ and Financing Fund, certain amendments must be made to the structure of certain enterprises to permit adequate monitoring and follow-up of their operations.

One of the enterprises that the government decided to integrate into the new reporting entity, at the recommendation of the working committee on government accounting, is the Commission de la santé et de la sécurité du travail (CSST), which is involved in the mutual insurance of industrial accidents. In this regard, the CSST's legal and financial structures will be reviewed, if necessary, to adapt them to the requirements of the government's new reporting entity. This revision will also ensure that it is clearly established that the CSST's net assets and employer contributions cannot be used for purposes other than those of the CSST's mandates.

Section 4

Financial Impact of Fiscal and Budgetary Measures

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES**1999-2000 BUDGET SPEECH**

(in millions of dollars)

	Impact on tax burden	Financial impact for the government	
	Full year	1999-2000	2000-2001
A. REVENUE MEASURES			
1. Measures concerning individuals			
General income tax reduction of \$400 million as of July 1, 2000	- 400.0	—	- 300.0
Reduction of individual contribution to the Health Services Fund	- 44.0	—	—
New refundable tax credit of 23% for home support of elderly persons losing their autonomy	-14.0	- 4.0	- 14.0
Improvement of tax assistance for people with a serious and prolonged physical or mental impairment	- 13.0	—	—
Improved tax assistance for families			
Increase in maximum refundable tax credit for adoption expenses from \$2 000 to \$3 000	- 0.5	- 0.5	- 0.5
Increase in maximum amounts of child care expenses	- 2.0	—	—
Sub-total	- 473.5	- 4.5	- 314.5
2. Measures concerning businesses			
2.1 Integrated fiscal strategy for the knowledge-based economy			
Measures to promote scientific research and experimental development (R&D)			
Implementation of super-deductions ¹	- 54.0	—	—
New additional tax credit of 15% based on the increase in R&D expenditures for SMEs	- 24.0	- 1.0	- 24.0
Extension of income tax holiday for foreign researchers from two to five years and introduction of a similar income tax holiday for certain foreign specialists	- 4.0	- 1.0	- 2.0
Measures to facilitate technological adaptation			
Introduction of a refundable tax credit of 40% for technological adaptation services	- 5.0	- 3.0	- 5.0
Accelerated depreciation deduction of 125%	- 34.0	- 34.0	- 28.0

1 Gain for Québec businesses resulting from the application of the federal tax system.

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES**1999-2000 BUDGET SPEECH (cont.)**

(in millions of dollars)

	Impact on tax burden	Financial impact for the government	
	Full year	1999-2000	2000-2001
Measures for businesses in the knowledge-based economy			
Creation of Centre national des nouvelles technologies de Québec (CNNTQ)	- 12.0	- 1.0	- 5.0
Creation of Carrefours de la nouvelle économie (CNEs)	- 30.0	- 1.0	- 9.0
Extension of the tax holiday from two to five years for foreign instructors working in CDTIs	- 1.0	- 1.0	- 1.0
Sub-total	- 164.0	- 42.0	- 74.0
2.2 Creation of the Montréal Foreign Trade Zone in Mirabel	- 10.0	—	- 4.0
2.3 Investments in culture			
New refundable tax credit for the production of sound recordings	- 2.0	- 1.0	- 2.0
New refundable tax credit for musical productions	- 2.0	- 1.0	- 2.0
Sub-total	- 4.0	- 2.0	- 4.0
2.4 Other measures to promote investment			
Capital tax holiday for new investments in certain sectors	- 34.0	- 25.0	- 34.0
Increase in the asset limit for QSSP eligibility from \$300 million to \$350 million	- 1.0	- 1.0	- 1.0
Extension of the period of application of the measure to promote the creation of investment funds	- 4.4	—	- 4.4
Income averaging measure for the owners of private woodlots affected by the ice storm	- 1.1	—	-0.3
Sub-total	- 40.5	- 26.0	- 39.7
Sub-total	- 218.5	- 70.0	- 121.7
TOTAL IMPACT OF REVENUE MEASURES	- 692.0	- 74.5	- 436.2

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES**1999-2000 BUDGET SPEECH (cont.)**

(in millions of dollars)

	Financial impact for the government		
	1998-1999	1999-2000	2000-2001
B. EXPENDITURE MEASURES			
1. Investments in health			
Financial restructuring and consolidation plan for health institutions			
– elimination of the network's debt	– 700.0	—	—
– additional resources to stabilize the operation of the network	– 300.0	—	—
Additional resources to maintain and improve services	– 155.0	– 592.0	– 592.0 ¹
Sub-total	– 1 155.0	– 592.0	– 592.0
2. Investments in education and for youth			
Improvement in the financial situation of universities	– 170.0	—	—
Purchase of dictionaries, grammar books and other books	– 30.4	—	—
Reform of education and others	– 6.6	– 46.5	– 52.5
Summer jobs and student internships in the public service	—	– 4.5	—
Additional resources to maintain and improve the quality of education services	—	– 342.0	– 342.0 ¹
Sub-total	– 207.0	– 393.0	– 394.5
3. Greater job creation efforts			
Investments to accelerate the shift to the knowledge-based economy	– 102.5	– 40.1	– 53.7
Improved support for investments by businesses	—	– 52.3	– 54.3
Creation of the Montréal Foreign Trade Zone in Mirabel	—	– 6.0	– 8.6
Opening to the world	—	– 7.6	– 12.1
Sub-total	– 102.5	– 106.0	– 128.7
4. Regional and local development			
Investments in the wake of the ice storm	– 13.1	– 4.2	– 4.5
Transportation investments	—	– 5.0	– 11.0
Support for sustainable development	—	– 5.6	– 7.3
One-stop tax assistance centre for businesses in the new economy	—	– 4.7	– 7.7
Support for local communities	—	– 11.5	– 15.0
Support for the Québec capital	– 0.1	– 5.0	– 6.0
Sub-total	– 13.2	– 36.0	– 51.5
5. Investments in culture			
Financial assistance for Québec's cultural and artistic development	– 25.0	—	—
Measures targeting cultural facilities	– 10.0	—	—
Other measures	– 12.8	– 3.0	– 8.0
Sub-total	– 47.8	– 3.0	– 8.0
6. Other expenditure measures			
Support for tourism development	– 6.2	– 2.7	– 2.5
Other measures	—	– 12.3	– 12.3
Sub-total	– 6.2	– 15.0	– 14.8
TOTAL IMPACT OF MEASURES ON EXPENDITURES	– 1 531.7	– 1 145.0	– 1 189.5
TOTAL IMPACT OF MEASURES ON REVENUE	—	– 74.5	– 436.2
TOTAL IMPACT OF FISCAL AND BUDGETARY MEASURES	– 1 531.7	– 1 219.5	– 1 625.7

Note: A negative entry indicates a cost for the government.

1 This amount consists of recurrent additional resources allocated in 1999-2000. It excludes the additional investments required to cover wage and non-wage system costs in 2000-2001, which will be evaluated in the framework of the preparation of the 2000-2001 Budget Speech.