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## **2.3 Introduction of a refundable tax credit to encourage Québec SMEs to adopt e-commerce solutions**

To encourage Québec SMEs to adopt e-commerce solutions, they may claim, over the next two years, a refundable tax credit for eligible expenditures incurred in the course of implementing such solutions.

More specifically, an eligible corporation may claim a refundable tax credit equal to 40% of the eligible expenditures it incurs in this regard. However, the amount of this tax credit, for an eligible corporation, may not exceed \$40 000.

### **□ Eligible corporation**

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

More specifically, such a corporation may claim the tax credit designed to encourage the adoption of e-commerce solutions, for a taxation year, if it satisfies either of the following conditions:

- 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 \$12 million, including the assets of corporations with which it is associated during the year;
- if the corporation is not in its first fiscal year, its gross income, for its preceding taxation year, is less than \$25 million, including the gross income of corporations with which it is associated during the year.

In addition, eligible corporations that are members of a partnership which, had it been 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 its taxation year in which the fiscal year of the partnership ends, on the basis of their respective shares of the income or loss of such partnership for such fiscal year.

### **☐ Eligible e-commerce solution**

The expression “eligible e-commerce solution” of an eligible corporation, regarding a business it carries on in Québec, means:

- either a transactional Web site using the public network (Internet), or a limited-access secure and confidential public network (extranet), concerning such business;
- or a business-to-business transactions system as part of a private network, in relation to such business.

However, such e-commerce solutions must include a transaction mode by secure computerized channel. The transaction mode must allow the purchase or sale of tangible or intangible goods, services or the exchange of commercial documents. Accordingly, a secure computerized channel must allow the authentication of users and ensure the confidentiality of information exchanged.

In addition, e-commerce solutions relating to pornography, violence or lottery games do not qualify as eligible e-commerce solutions.

Lastly, an e-commerce solution must satisfy all the conditions for qualifying as an eligible e-commerce solution no later than March 31, 2003.

### **☐ Eligible expenditure**

The expression “eligible expenditure” of an eligible corporation, for a taxation year, regarding an eligible e-commerce solution, means all the expenditures, incurred by such corporation, attributable to salaries and the cost of acquiring application software for inclusion in the eligible e-commerce solution, as part of the stages of implementation of the eligible e-commerce solution, including stages relating to:

- setting out an eligible e-commerce solution implementation assessment;
- developing a marketing plan for the eligible e-commerce solution;
- developing an eligible e-commerce solution;
- the training of the employees of the eligible corporation or technical support, for a period ending three months after the date of implementation of the eligible e-commerce solution, other than regarding the salary expenditures for employees of the eligible corporation being trained;
- the maintenance of the eligible e-commerce solution, for a period of three months after the date of implementation of the eligible e-commerce solution.

For this purpose, the date of implementation of the eligible e-commerce solution will correspond to the date on which such e-commerce solution is functional and satisfies, for the first time, all the conditions that enable it to qualify as an eligible e-commerce solution.

In addition, the expenditures relative to the execution of the work relating to the implementation of an e-commerce solution must be attributable to services provided in Québec by a taxpayer with an establishment there.

When the work relating to the implementation of an e-commerce solution for an eligible corporation is not carried out directly by the eligible corporation, it may still claim the tax credit, but only for part of the fees paid in this regard.

In particular, the eligible expenditure, in the case where a mandate is awarded to a third party with which the eligible corporation is at arm's length, will correspond to an amount equal to 80% of the fees attributable to the portion of the fees relating to expenditures otherwise eligible. In the case of a mandate awarded to a third party with which the eligible corporation is not at arm's length, the eligible expenditure will correspond to an amount equal to the expenditures otherwise eligible incurred by such third party. In addition, the portion of the fees attributable to salary expenditures will, if necessary, be the portion that can be reasonably attributed to salaries if such third party had such salary expenditures.

More specifically, the expenditures incurred in the course of improving an e-commerce solution which fails to comply, on the date of the Budget Speech, with all the conditions that enable it to qualify as an eligible e-commerce solution, may give rise to the tax credit if the eligibility conditions are otherwise satisfied.

However, the following expenditures will not be eligible:

- expenditures to commercialize the e-commerce solution, except those relating exclusively to the design of a marketing plan;
- expenditures for the acquisition or leasing of assets except those relating to the acquisition of application software to be incorporated into the e-commerce solution;
- expenditures for hosting an e-commerce solution;
- any other expenditure not related to the design of an e-commerce solution or the incorporation of such a solution within a business.

Furthermore, the eligible expenditures must be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit, according to the usual rules.

Lastly, the eligible expenditures must have been paid at the time the refundable tax credit is claimed.

### Limit on the tax credit

The amount of the refundable tax credit an eligible corporation may claim, for a taxation year, regarding the implementation of an eligible e-commerce solution, will be equal to 40% of all the eligible expenditures it incurs and of its share of such expenditures incurred by a partnership of which it is a member, if any, regarding an eligible e-commerce solution, for such taxation year. However, this tax credit will be limited, for an eligible corporation, to \$40 000, for the entire period, described below, regarding which eligible expenditures may be incurred regarding an eligible e-commerce solution.

More specifically, the limit on the tax credit, in relation to eligible expenditures incurred by a partnership, will also be \$40 000 for the partnership.

In addition, the members of a group of associated corporations will have to share the \$40 000 limit among themselves by filing an agreement to that effect with the MRQ.

### Excluded corporation

An “excluded corporation”, for a taxation year, means:

- a corporation for which the wages and salaries the corporation paid during the year to employees of establishments located in Québec as a proportion of all the wages and salaries it paid during the year is less than 50%;
- a corporation which earns more than 10% of its gross income, for the year, from a source other than the operation of an eligible business;
- a corporation that is tax-exempt for the year;
- a Crown corporation or a wholly-controlled subsidiary of such a corporation.

### Other application details

If an eligible expenditure for which a tax credit was granted is paid back to the eligible corporation or partnership, in whole or in part, or if the criterion regarding compliance with all the conditions that enable an e-commerce solution to qualify as an eligible e-commerce solution is not satisfied by March 31, 2003 at the latest, the tax credit granted will be recaptured by means of a special tax.

An eligible corporation wishing to claim a tax credit, for a taxation year, must enclose with its tax return, for such year, a form prescribed by the MRQ. This tax credit may also be applied against any tax instalments the eligible corporation may be required to make for income tax and the tax on capital.

Lastly, in view of the temporary nature of this tax credit and its specific objective, corporations located in a designated site allowing them to claim specific tax credits linked to the performance of activities in such a site, may claim such specific tax credits in the course of carrying out mandates they may receive for the implementation of eligible e-commerce solutions, even if the corporation which awards the execution of the work can itself claim the tax credit to encourage the implementation of eligible e-commerce solutions. These designated sites are information technology development centres (CDTI), the Cité du multimédia, the Centre national des nouvelles technologies de Québec (CNNTQ) and new economy centres (CNE).

For the same reasons, corporations specializing in the production of multimedia titles may, when the implementation of an eligible e-commerce solution requires the production of a multimedia title, claim the tax credit for corporations specializing in the production of multimedia titles in the course of carrying out mandates they may receive for the implementation of eligible e-commerce solutions, even if the corporation which awards the execution of the work can itself claim the tax credit to encourage the implementation of eligible e-commerce solutions.

#### **□ Period of eligibility of expenditures**

The expenditures relating to the implementation of an eligible e-commerce solution must be incurred by a corporation, or by a partnership as the case may be:

- after the day of the Budget Speech and before April 1, 2002;
- after March 31, 2002 and before October 1, 2002:
  - if they are incurred in accordance with a written obligation contracted before April 1, 2002; or
  - if the implementation of an eligible e-commerce solution by the corporation or partnership, as the case may be, or for either of them, had started before April 1, 2002.

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