Section 1

Revenue Measures

1. MEASURES CONCERNING INDIVIDUALS

1.1 New $3.5-billion income tax reduction

In the Budget Speech of March 14, 2000, the government announced a personal income tax reduction plan to be implemented over the 2000, 2001 and 2002 taxation years and maintained, as of January 1, 2003, through full indexation of the taxation system.

By announcing in this Budget Speech a general income tax reduction as of July 1, 2001 and full indexation of the taxation system beginning on January 1, 2002, the government increases the income tax reductions announced for 2001 and subsequent taxation years and is ahead of the established schedule.

Thus, not only will the anticipated income tax reductions take effect sooner, they will also be higher.

1.1.1 General income tax reduction as of July 1, 2001

Beginning on July 1, 2001, the tax rate applicable to the first taxable income bracket, that is, the bracket not exceeding $26 000, will be reduced 2 percentage points, from 18% to 16%. The reduction respecting the taxable income bracket exceeding $26 000 but not exceeding $52 000 will be 2.5 percentage points, for a drop in the applicable tax rate from 22.5% to 20%. Finally, the tax rate applicable to the taxable income bracket over $52 000 will be reduced 1 percentage point, from 25% to 24%.

Given the changes to be made to the marginal tax rates, the rate used to convert recognized amounts to non-refundable tax credits will be set at 20% as of July 1, 2001.

This general income tax reduction will be reflected in the level of income tax to be deducted at source from salaries and certain other amounts, such as retirement benefits, paid after June 30, 2001.

Considering that the personal income tax payable on taxable income is calculated on a taxation-year basis, that is, from January 1 to December 31 of a given year, the table used to calculate the personal income tax payable on taxable income for the 2001 taxation year will be replaced in order to provide for:

— a reduction from 18% to 17% in the tax rate respecting the first taxable income bracket, that is, the bracket not exceeding $26 000;

— a decrease from 22.5% to 21.25% in the tax rate applicable to the second taxable income bracket—the bracket exceeding $26 000 but not exceeding $52 000; and

— a reduction from 25% to 24.5% in the tax rate applicable to the last taxable income bracket, namely, the bracket over $52 000.

The rate used to convert recognized amounts to non-refundable tax credits will be set at 20.75% for the 2001 taxation year.

The table below compares the tax rates and the conversion rate for non-refundable tax credits that will apply in 2001 and in subsequent taxation years with the rates announced in the Budget Speech of March 14, 2000.

TABLE 1.1

COMPARISON OF THE TAX TABLES APPLICABLE BEFORE AND AFTER THE BUDGET SPEECH
(as a percentage)

		2001		As of 2002	
		Before Budget	**After Budget**	**Before Budget**	**After Budget**
Tax table					
Taxable income brackets					
Income over	But not over				
0	$26 000[1]	18	17	17	16
$26 000[1]	$52 000[1]	22.5	21.25	22	20
$52 000[1]		25	24.5	24	24
Rate used to convert recognized amounts to non-refundable tax credits		21.5	20.75	21	20

1 Subject to full indexation as of January 1, 2003, before the Budget, and as of January 1, 2002, after the Budget.

1.1.2 Earlier introduction of the additional tax reduction for families

Taxpayers with a dependent child can claim a maximum tax reduction of $1 500 in the case of a couple and of $1 195 in the case of a single-parent family. This amount is reduced by 4% of every dollar of family income that exceeds $26 000.

In the Budget Speech of Mars 14, 2000, it was announced that, to ensure a more gradual decrease in the amount granted as a tax reduction for families and an increase in the number of families eligible for the tax reduction, the applicable tax-back rate would be reduced to 3% as of January 1, 2002.

To ensure that Québec families benefit sooner from this improvement, the 3% tax-back rate will be retroactive to January 1, 2001. Moreover, the tax regulations will be amended so that the reduction of 1 percentage point in the tax-back rate applicable to the tax reduction for families is taken into account in the calculation of the amounts to be deducted at source from various payments made to taxpayers after June 30, 2001.

1.1.3 Earlier full indexation of the taxation system: January 1, 2002

In the Budget Speech of March 14, 2000, the introduction of a mechanism for automatic indexation of the taxation system was announced in order to maintain, as of January 1, 2003, the protection against inflation afforded Québec taxpayers under the personal income tax reduction plan.

To ensure the maintenance of the taxation system that will apply as of July 1, 2001, automatic full indexation of the personal income tax system will come into effect one year earlier, as of January 1, 2002.

The indexing method applicable for a given taxation year will remain the same. More specifically, the indexing factor will be equal to the percentage change in the average Québec consumer price index (QCPI) for the 12-month period ended September 30 of the taxation year preceding the one for which an amount is to be indexed, compared to the average QCPI for the 12-month period ended September 30 of the taxation year prior to the year preceding the one for which an amount is to be indexed.

As a rule, this indexing factor will be applied, for a given taxation year, to the established value of indexed parameters in the previous taxation year.

All three taxable income brackets in the tax table will automatically be indexed, as will the various family income brackets defined in the rate table used to calculate the refundable tax credit for child care expenses.

Other parameters that will automatically be indexed are shown in the table below.

TABLE 1.2

TAX PARAMETERS SUBJECT TO AUTOMATIC INDEXATION
(in dollars per year)

Parameter	Current amount
Essential amounts	
Basic amount	5 900
Amount for a person living alone	1 050
Amount respecting a spouse	5 900
Amount respecting dependent children	
— 1st child	2 600
— each additional child	2 400
— amount for a single-parent family	1 300
Amount respecting children engaged in post-secondary studies	
— per term (maximum 2)	1 650
Amount respecting other dependants	2 400
Amount respecting other dependants with an infirmity	5 900
Reduction threshold for certain tax credits[1]	26 000
Parameters for certain refundable tax credits	
Refundable tax credit for medical expenses	
— maximum amount	500
— reduction threshold	17 500
QST credit	
— basic amount	154
— amount respecting a spouse	154
— amount for a person living alone	103
Tax credit for individuals living in northern villages	
— basic monthly amount	35
— monthly amount respecting a spouse	35
— monthly amount respecting a dependant	15
Real estate tax refund	
— maximum allowable taxes	1 285
— taxes deducted per adult	430

1 Tax credit for a person living alone, with respect to age or for retirement income, tax reduction for families, Québec sales tax (QST) credit, tax credit for individuals living in northern villages and real estate tax refund.

In general, if the result obtained by applying the indexing factor to a given parameter is not a multiple of $5, the result must be adjusted to the nearest multiple of $5 or, if it is equidistant between two multiples of $5, to the nearest higher multiple of $5.

However, certain parameters are unaffected by an adjustment to the nearest multiple of $5. Therefore, in the case of the following parameters, adjustment must be made to the nearest multiple of $1 or, if the result is equidistant between two multiples of $1, to the nearest higher multiple of $1:

— amount of $154 (in the case of an individual or the individual's spouse) or $103 (in the case of a person living alone), for the purpose of calculating the QST credit;

— monthly amount of $35 (in the case of an individual or the individual's spouse) or $15 (in the case of a dependant), for the purpose of calculating the tax credit for individuals living in northern villages.

The flat amount under the simplified tax system will also be set so as to protect taxpayers' purchasing power.

Under existing rules, the flat amount for a given taxation year corresponds to the higher of the following amounts: the flat amount granted in the calculation of the income tax otherwise payable for the previous taxation year or, subject to an adjustment to the nearest multiple of $5, the amount obtained by adding $250 to the total of an employee's maximum Québec Pension Plan (QPP) contributions and maximum employment insurance premiums for the year.

These rules will be changed so as to make the flat amount used to determine an individual's income tax payable for a taxation year after 2001 equal to the higher of the following amounts, adjusted to the nearest multiple of $5:

— the amount obtained by multiplying the flat amount granted in the calculation of income tax otherwise payable for the previous taxation year by the indexing factor applicable for the year;

— the amount obtained by adding $250 to the total of an employee's maximum QPP contributions and maximum employment insurance premiums for the year.

1.1.4 Consequential amendments

❑ Tax rate applicable to certain trusts

Under the current tax legislation, the income tax payable by an inter vivos trust other than a mutual fund trust is the amount payable on its taxable income for the taxation year, calculated according to the current personal income tax table, or 21.5% of its taxable income for the year, whichever is higher.

The income tax payable by a mutual fund trust for a given taxation year is the amount payable on an adjusted taxable income for the year, calculated by applying the personal income tax table, or 21.5% of the adjusted taxable income, whichever result is higher.

In order to bring this tax treatment in line with the general income tax reduction announced today, the 21.5% rate will be reduced in each case to 20.75% for the 2001 taxation year, and to 20% as of the 2002 taxation year.

❑ Adjustments to the rates used to calculate source deductions respecting certain payments

Under existing tax regulations, the amount of income tax to be deducted at source from certain types of payments must correspond to the amount obtained by multiplying the payment by a fixed rate. Various amendments will be made to the regulations so that the personal income tax reductions that will be applicable for the 2001 taxation year and as of the 2002 taxation year are taken into account in the rates used to calculate source deductions.

• Lump-sum payments

At present, a person who makes a lump-sum payment under a registered retirement income fund or a registered retirement savings plan, or as a retiring allowance, is generally required to withhold personal income tax equal to 18% of the payment if it is $5 000 or less and to 21.5% if it exceeds $5 000.

To ensure these source deduction rates are consistent with the changes to be made to the tax table, the tax regulations will be amended so that the deduction rate for lump-sum payments is equal to:

— 17% for payments made after June 30, 2001 but before January 1, 2002, where the payment does not exceed $5 000, and 20.75%, where the payment exceeds this amount;

— 16% for payments made after December 31, 2001, where the payment does not exceed $5 000, and 20%, where the payment exceeds this amount.

• Bonuses and retroactive increases

Under existing tax regulations, where a payment of a bonus or a retroactive increase is made to an employee whose estimated annual pay, including the bonus or retroactive increase, does not exceed the threshold determined for the year, the employer must deduct 9% from the payment. However, where the employee's estimated annual pay exceeds the threshold determined for the year, the employer must determine the amount of the required income tax deduction according to the rules set out in the tax regulations.

On the basis of the parameters provided for in the tax regulations, the threshold for determining the method under which income tax is to be withheld from payments made after December 31, 2000 but before January 1, 2002 was set at $10 050.

Given the changes to be made to the tax table for the 2001 taxation year, this threshold will be set at $10 250 for payments made after June 30, 2001 but before January 1, 2002.

Furthermore, an employer who pays a bonus or a retroactive increase after December 31, 2001 to an employee whose estimated annual pay, including the payment, does not exceed the threshold determined for the year in accordance with the tax regulations must deduct 8% from the payment.

- **Remuneration of self-employed fishers**

Persons who engage in fishing otherwise than under an employment contract may elect to have amounts deducted at source from their remuneration. Under the existing rules pertaining to self-employed fishers who choose this option, any person who remunerates them must deduct 18%—the rate applicable to the first taxable income bracket—from the payment.

Considering that the tax rate applicable to the first taxable income bracket will be reduced by 2 percentage points as of July 1, 2001, the source deduction rate respecting the remuneration of self-employed fishers will be reduced to:

— 17%, in the case of payments made after June 30, 2001 but before January 1, 2002;

— 16%, in the case of payments made after December 31, 2001.

1.2 Changes to certain parameters used to calculate alternative minimum tax

The purpose of alternative minimum tax is to balance the objectives for fairness and the funding of public expenditures with economic development objectives, by ensuring that taxpayers who take advantage of tax breaks pay a minimum amount of income tax each year. Were it not for alternative minimum tax, certain high-income taxpayers would be able to considerably reduce or eliminate their income tax payable by claiming tax expenditures introduced into the taxation system in order to attain certain economic development objectives.

In short, alternative minimum tax requires that an adjustment be made to taxable income. To determine this adjusted taxable income, taxpayers must add to their taxable income determined according to the rules governing the general tax system, a series of deductions or benefits provided for in the tax legislation (for example, the non-taxable portion of capital gains), but can claim a $25 000 general exemption. This adjusted taxable income is currently subject to a flat tax rate of 21.5%—the non-refundable tax credit conversion rate that was applicable to the 2001 taxation year prior to this Budget Speech.

However, in calculating alternative minimum tax, individuals can claim certain non-refundable tax credits, such as personal tax credits. After taking these tax credits into account, they are required to compare the amount of alternative minimum tax calculated to the amount of income tax that would otherwise be payable, and pay the higher of the two amounts.

If the amount of alternative minimum tax is the higher of the two amounts of income tax, the amount of additional income tax payable for a taxation year can be carried forward to the next seven taxation years, but may be deducted from the income tax otherwise payable only if the regular income tax exceeds the alternative minimum tax for the year.

To take into account, on the one hand, the changes to be made to the tax table further to the general income tax reduction announced in this Budget Speech and, on the other hand, the reduction in the capital gains inclusion rate—from 75% to 66 ⅔%, in the case of gains realized after February 27, 2000 but before October 18, 2000, and to 50%, in the case of gains realized after October 17, 2000—certain parameters used to determine the amount of alternative minimum tax payable for a taxation year will be modified.

The applicable alternative minimum tax rate will be reduced to 20.75% for the 2001 taxation year, and to 20% as of the 2002 taxation year. These reduced rates correspond to the rates to be used to convert recognized amounts to non-refundable tax credits for those years.

Moreover, only 70% of the of the capital gain realized in a given year must be taken into account in the calculation of the adjusted taxable income for that year. This modification will apply retroactively as of the 2000 taxation year.

1.3 Full exemption for scholarships

Under existing rules, an amount received in a taxation year as a scholarship, fellowship, bursary or prize for a remarkable achievement must be included in the calculation of income for that year, subject to a minimum exemption of $3 000 applicable to the aggregate of such amounts.

However, these rules do not apply to educational assistance payments made under a registered education savings plan, amounts received during the course of a business or amounts received because of or in the course of an office or employment, which have their own set of inclusion rules.

Moreover, a number of bursaries and prizes are not covered by the inclusion rules and are therefore not taxable. Since March 14, 2000, this has been true primarily of bursaries and prizes received otherwise than under the *Act respecting financial assistance for education expenses* or an equivalent Canadian statute in order to pursue undergraduate studies or studies leading to a master's or a doctoral degree.

In addition, taxpayers must take into account, in determining their income subject to the 1% contribution to the Health Services Fund (HSF) for a given year, any amount that, for income tax purposes, was included in their income for the year as a bursary or prize. Thus, bursaries and prizes that are exempt from the inclusion rules are not only exempt from income tax, but also excluded from the tax base of the contribution to the HSF.

New tax rules will take effect as of the 2001 taxation year so that bursaries and prizes not received under a registered education savings plan, through the carrying on of a business or by virtue of an office or employment are exempt from income tax and the contribution to the HSF.

These new rules will not apply to certain bursaries that are currently excluded from the calculation of income and that are intended to meet the special needs of certain students. Such bursaries include those received from the ministère de l'Éducation under the Programme d'allocations pour les besoins particuliers des étudiants atteints d'une déficience fonctionelle majeure (allocation program respecting the special needs of students with a major functional impairment), and those relating to actual transportation costs, in accordance with the budgetary rules established by the Minister of Education pursuant to the administration of the *Education Act for Cree, Inuit and Naskapi Native Persons*. Such bursaries, hereinafter called "excluded bursaries", will therefore continue to be subject to the rules currently applicable to them.

1.3.1 Income tax exemption

With a view to increasing the financial incentive for students to pursue their studies and to fostering the realization of remarkable achievements, bursaries and prizes will no longer be taxable as of the 2001 taxation year. To attain this goal while ensuring the fairness of the taxation system, bursaries and prizes must first be included in the calculation of income, after which a corresponding deduction may be claimed in the calculation of taxable income.

Thus, the tax legislation will be amended to stipulate that taxpayers must include in the calculation of their income for a taxation year any amount received in the year as a scholarship, fellowship or bursary (other than an excluded bursary) or as a prize for a remarkable achievement in their usual field of endeavour, except an amount received as a benefit under a registered education savings plan or an amount received during the course of a business or because of or in the course of a past, present or future office or employment.

Moreover, the tax legislation will be amended so that taxpayers can deduct in the calculation of their taxable income for a taxation year any amount thus included in their income for the year, regardless of whether their income tax payable is calculated under the rules of the general tax system or the simplified tax system.

For greater clarity, no change will be made to the current tax treatment of research grants.

1.3.2 Exemption from the contribution to the Health Services Fund

With a view to exempting bursaries and prizes from the 1% contribution payable by individuals to the HSF, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended so as to exclude from income subject to the contribution for a given year any amount deducted as a bursary or prize in the calculation of taxable income.

This amendment will apply beginning in the 2001 taxation year.

1.3.3 Consequential amendments

Various amendments will have to be made to the tax legislation due to the new rules applicable to bursaries and prizes.

❑ Deduction for repayment

Provided certain conditions are met, taxpayers can claim a deduction in the calculation of their income for a taxation year with respect to an amount they repaid in the year regarding a scholarship, fellowship, bursary or prize previously included in the calculation of their income.

This deduction, which may be claimed under both the general and the simplified tax systems, takes into account the fact that the amount thus repaid should not have been included in the calculation of income, and enables the corresponding adjustment to be made to family income, which is taken into account in the application of various refundable and non-refundable tax credits and a number of socio-fiscal measures.

In addition, taxable income for the taxation year during which a scholarship, fellowship, bursary or prize is repaid in whole or in part can be reduced as a result of the deduction.

However, such a reduction is justified only if the allowable deduction for the bursary or prize with respect to which a repayment was made was not claimed in the calculation of taxable income for the year in which the bursary or prize was received.

The tax legislation will therefore be amended to provide that taxpayers must include in the calculation of their taxable income for a taxation year subsequent to 2000 any amount deducted in the calculation of their income for that year as a repayment of a scholarship, fellowship, bursary or prize, where a deduction was claimed in their taxable income for the year or a previous year with respect to the scholarship, fellowship, bursary or prize.

Taxpayers may also claim a deduction for a repayment made with respect to a bursary or prize, in the calculation of their income subject to the 1% contribution payable to the HSF.

Considering that because of the new rules, bursaries and prizes will be excluded from income subject to this contribution, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended so as to allow the deduction only if it is claimed respecting an amount that is not so excluded from income subject to the contribution.

This amendment will apply beginning in the 2001 taxation year.

❑ Deduction for moving expenses

As a rule, taxpayers who are enrolled in full-time post-secondary or university studies may deduct in the calculation of their income reasonable moving expenses incurred to move to a place at least 40 kilometres closer to the place where they began their full-time studies.

The maximum deduction is, however, limited to the total of the amounts that must be included in the calculation of income as a scholarship, fellowship, bursary, prize or research grant.

This deduction is therefore intended to offset the inclusion of such amounts in the taxpayers' income. This inclusion has already been offset in the case of bursaries and prizes since they are now deductible in the calculation of taxable income.

Accordingly, the tax legislation will be amended so as to allow taxpayers enrolled in full-time post-secondary or university studies to deduct moving expenses in the calculation of their income for the taxation year in which they moved or for the subsequent taxation year, provided, in particular, the moving expenses do not exceed the total of the amounts to be included as research grants in their income for the year.

This amendment will apply beginning in the 2001 taxation year.

❑ Refundable tax credit for child care expenses

Generally speaking, child care expenses give entitlement to the refundable tax credit for child care expenses only if they are paid so that one of the parents can work or pursue his studies. Consequently, this tax credit is granted on the basis of earned income, which is essentially the total of a person's work-related income and the income associated with his student status.

Earned income is used to determine the amount of child care expenses giving entitlement to the tax credit. Except in certain cases, this amount is limited to the lower of the parents' earned incomes.

Due to the new rules governing bursaries and prizes, the notion of earned income for a taxation year will be amended to incorporate, in addition to the bursaries already covered by the notion and received in the year to meet the special needs specific to certain students, any scholarship, fellowship or bursary amount included in the calculation of income for the year.

This amendment will apply beginning in the 2001 taxation year.

1.4 Simplification of the notion of dependant for the purpose of the application of certain refundable tax credits

The notion of dependant is a recurring one in the existing tax legislation. Depending on the objectives of the tax measure concerned, the notion may apply to persons with regard to whom a tax credit respecting dependent children or other dependants may be claimed, or could be claimed were it not for the income of these persons.

Under the legislation, individuals may claim for a taxation year a tax credit respecting dependent children with regard to a person who, during the year, meets the following conditions:

— The person is their or their spouse's child, grandchild, sister, brother, niece or nephew.

— The person is under 18 years of age, or is 18 or over and a full-time student.

— The person ordinarily lives with them (unless the person is their dependant because of a mental or physical infirmity).

— The person is their dependant.

For the purposes of the law, a person is considered to be the dependant of another individual if the latter meets his essential or priority needs on a regular and ongoing basis. The person's income does not in itself determine whether the person is the dependant of another individual. It therefore follows that the question must be settled on a case-by-case basis once all of the pertinent facts have been analysed. The person's income is nonetheless taken into account in determining the amount of the tax credit that may be claimed by the individual in the person's regard.

For the purpose of the application of certain tax measures, it can therefore sometimes seem complex to determine whether a person is actually someone's dependant, especially if the person is a young adult striving to achieve financial independence.

At present, a person who is the dependant of another individual for a given taxation year cannot claim for that year the refundable QST credit or the refundable tax credit for individuals living in northern villages, even if the other individual is not entitled to claim the tax credit respecting dependent children in the person's.

In order to make it easier for taxpayers to determine whether they are entitled to the QST credit or the tax credit for individuals living in northern villages, and to enable more students to claim these refundable credits, changes will be made to the eligibility criteria.

1.4.1 Refundable QST credit

In general, a person living in Québec at the end of a taxation year, with regard to whom another person is not entitled to the tax credit respecting dependent children at any time during that year, may claim the refundable QST credit for the year. The maximum allowable amount is limited to the total of the following amounts:

— $154, with respect to the person;

— $154, with respect to the person's spouse during the year, where applicable;

— $103, where the person does not have a spouse at any time during the year and where, throughout the year, the person ordinarily lives in a self-contained domestic establishment in which no other person lives, unless that person is someone entitling the person to the tax credit respecting dependent children.

This maximum amount is reduced by 3% of every dollar of family income (that is, the person's net income and, where applicable, that of his spouse, at the end of the year, as determined under the simplified tax system) that exceeds $26 000.

The QST credit is paid in two equal instalments, in August and December of the following year.

Changes will be made to the eligibility criteria so that the credit may be claimed by a person who, at the end of December 31 of a given taxation year, is living in Québec and is either 19 years of age, an emancipated minor within the meaning of the *Civil Code of Québec* (which emancipation may have come about through marriage) or living in a de facto union or the parent of a child, except where the person is:

— someone with regard to whom another person claims an amount as a tax credit for dependent children in the calculation of his income tax otherwise payable for the year;

— someone designated as a dependant for the year by another person, for the purpose of the application of the tax reduction for families;

— someone with regard to whom another person includes an amount in the calculation of the amount used to determine the tax credit for individuals living in northern villages.

Given the changes to be made to the eligibility criteria for the QST credit, the amount of $103 may be claimed only by a person who, throughout a given year, does not have a spouse and ordinarily lives in a self-contained domestic establishment where no other person entitled to the QST credit for the year lives.

For greater clarity, the exclusions provided for in the current legislation, in particular with respect to tax-exempt persons, will be maintained.

These amendments will apply beginning in the 2001 taxation year.

1.4.2 Tax credit for individuals living in northern villages

In general, a person living in Québec at the end of a taxation year, with regard to whom another person is not entitled to the tax credit respecting dependent children at any time during that year, may claim for the year the refundable tax credit for individuals living in northern villages. The maximum allowable amount is equal to the result obtained by multiplying the number of months in the year the person lived on the territory of a northern village by the total of the following amounts:

— $35, with respect to the person;

— $35, with respect to the person's spouse during the year, where applicable;

— $15, with regard to each dependent child entitling the person or his spouse to the tax credit respecting dependent children for the year.

This maximum amount is reduced by 15% of every dollar of family income (that is, the person's net income and, where applicable, that of his spouse, at the end of the year, as determined under the simplified tax system) that exceeds $26 000.

This credit is paid in two equal instalments, in August and December of the following year.

Changes will be made to the eligibility criteria so that the credit may be claimed by a person who, at the end of December 31 of a given taxation year, is living in Québec and is at least 19 years of age, an emancipated minor within the meaning of the *Civil Code of Québec*, or living in a de facto union or the parent of a child, except where the person is:

— someone with regard to whom another person claims an amount as a tax credit for dependent children in the calculation of his income tax otherwise payable for the year;

— someone designated as a dependant for the year by another person, for the purpose of the application of the tax reduction for families.

For greater clarity, the exclusions provided for in the current legislation will be maintained.

Given the changes to be made to the eligibility criteria for the credit, the monthly amount of $15 per dependent child will be granted with regard to an individual entitling the person or his spouse to the tax credit for dependent children for the year, except with regard to an individual who would have been entitled to the tax credit for individuals living in northern villages had he or she lived on the territory of a northern village.

These amendments will apply beginning in the 2001 taxation year.

1.5 Improvement of the tax assistance for persons who become parents through medical means or adoption

The current tax legislation provides for tax assistance of up to $3 750 for persons who resort to certain medical techniques or who turn to adoption in order to become parents.

Under a measure that came into effect in the 2000 taxation year, individuals who resort to medical techniques can claim a refundable tax credit for expenses relating to artificial insemination or *in vitro* fertilization. This refundable tax credit for the treatment of infertility is equal to 25% of the total allowable expenses, to a maximum of $15 000, paid in the year by an individual in order to become a parent, or by the person who is the individual's spouse at the time the expenses are paid.

Such expenses include, in particular, amounts paid to a physician or a licensed private hospital and amounts paid for medication prescribed by a physician and recorded by a pharmacist.

Individuals who adopt a child can claim a refundable tax credit equal to 25% of eligible adoption expenses paid by them or their spouse, once the adoption process is complete. However, the amount of adoption expenses eligible for this tax credit is limited to $15 000.

Eligible adoption expenses include, in particular, judicial or extrajudicial costs incurred to obtain an adoption order, expenses incurred for a trip abroad in order to accept the adopted child and amounts charged by the foreign institution having supported the child.

In order to improve the tax assistance thus granted, the rate of the tax credit for the treatment of infertility and the tax credit for adoption expenses will be raised from 25% to 30%. Moreover, the amount of expenses giving entitlement to each of the tax credits will be increased by $5 000, thereby raising the ceiling on eligible expenses to $20 000.

These improvements will enable persons who resort to one of the two principal treatments for infertility—artificial insemination and *in vitro* fertilization—to receive up to $6 000 in tax assistance per year, and persons who turn to adoption to obtain a maximum of $6 000 in tax assistance per adopted child.

The changes to the refundable tax credit for the treatment of infertility will apply as of the 2001 taxation year. In the case of the refundable tax credit for adoption expenses, the changes will apply as of the 2001 taxation year, with respect to final adoption orders handed down after December 31, 2000 or, as applicable, to certificates registering adoptions issued by the clerk of the Court of Québec after that date.

1.6 Relaxation of the eligibility criteria for the tax credit for a severe and prolonged mental or physical impairment

In the Budget Speech of March 9, 1999, it was announced that, to clarify the application of the tax credit for a severe and prolonged mental or physical impairment, hereinafter called the “tax credit for an impairment”, the tax legislation would be amended as of the 1999 taxation year to stipulate that a person’s ability to carry out a basic activity of daily living would be considered to be markedly restricted where, because of illness, the person is obliged to spend a long time, several times a week, on physician-prescribed therapy essential to the maintenance of his vital functions.

For the 1999 taxation year, the ministère du Revenu du Québec considered a patient to have spent several long periods a week on therapy if he was required to devote 14 or more hours a week to obtaining the required treatment, including travel time, medical visits and post-treatment recovery time.

On February 28, 2000, the federal government also announced that it would amend its legislation to provide for a new category of taxpayers that would be eligible for the federal disability tax credit as of the 2000 taxation year.

Given that the new category of taxpayers eligible for the federal disability tax credit appeared to be relatively similar to the one added a year earlier for the purpose of the application of Québec legislation, it was announced in the Budget Speech of March 14, 2000 that the federal measure would be incorporated into Québec tax legislation as of the 2000 taxation year, in order to avoid any interpretation problems.

However, it became apparent that, for the purpose of the application of the federal legislation, the minimum period of 14 hours per week had to be devoted entirely to the administration of therapy and that, as a result, the 14-hour period did not include, among other things, post-treatment recovery time.

Given that post-treatment recovery time, in particular, should be indissociable from the time spent undergoing therapy, Québec tax legislation will be amended to stipulate that a person is entitled to the tax credit for an impairment if, because of chronic illness, he undergoes physician-prescribed therapy essential to the maintenance of a vital function two or more times a week, and must devote a total of at least 14 hours a week to the therapy, including, among other things, post-treatment recovery time.

For greater clarity, only therapy essential to maintaining a vital function of chronically ill taxpayers, other than treatments that may reasonably be expected to be beneficial to persons who are not chronically ill, can be taken into account in the application of this measure.

These amendments will apply beginning in the 2000 taxation year.

1.7 Improvement of the tax assistance granted in the taxation year in which a person or the person's spouse dies

Under the current legislation, the income of a person for the taxation year in which he dies must be reported by the liquidator of the succession. As a rule, all of the income earned by the person up to the date of his death must be reported in a tax return commonly referred to as the "principal income tax return". However, the liquidator of the succession can decide to file one or more separate returns respecting certain types of income.

Where the liquidator of the succession decides to file several income tax returns for the year of a taxpayer's death, the current taxation system stipulates which non-refundable tax credits can be claimed in full in each of the separate returns filed, or divided among them, and which tax credits can be claimed only in the principal income tax return.

Moreover, a taxpayer whose spouse dies during the year can, under certain circumstances, claim an amount with respect to the deceased in the calculation of his personal tax credits for the year, even if, at the end of the year, the taxpayer can no longer be considered to be married or living in a de facto union.

In an effort to improve the tax assistance granted for the taxation year in which a taxpayer or the taxpayer's spouse dies, certain changes will be made to the personal income tax system.

1.7.1 Possibility of opting for the simplified tax system

Since the 1998 taxation year, Québec taxpayers who have few deductions and tax credits have been able to opt for the simplified tax system. Essentially, the simplified tax system provides for the replacement of a series of deductions and non-refundable tax credits by a flat amount. The flat amount, which was $2 625 in 2001, is converted to a non-refundable tax credit at the rate of 20.75%.[1]

However, to opt for the simplified tax system for a given taxation year, taxpayers:

— must have lived in Canada throughout the taxation year;

— must have been living in Québec on December 31 of the taxation year; and

— must not have gone bankrupt during the calendar year that includes the taxation year.

Thus, since a deceased person does not meet the above residency requirements for the taxation year of his death, his tax return for that year cannot be filed under the rules of the simplified tax system.

To enable the estate of a deceased person to take advantage of the flat amount where the deceased would have had few deductions and tax credits for the taxation year of his death, the tax legislation will be amended to allow the liquidator of the succession to file, under the rules of the simplified tax system, the principal income tax return of the deceased for the taxation year in which he died.

This measure will apply beginning in the 2001 taxation year.

1 This is the conversion rate that will apply for the 2001 taxation year further to the general income tax reduction announced in this Budget Speech.

1.7.2 Eligibility for the tax credit for a person living alone

The tax system provides for a non-refundable tax credit of up to $218 for a person living alone or only with one or more dependent children. This tax credit is equal to an amount for recognized essential needs of $1 050, converted at the rate of 20.75%.[2]

The purpose of this tax credit is to recognize additional needs, compared with those of a person living in a couple, relating to the occupation of an apartment or a house by a person living alone or by a single-parent family (for example, rent, telephone and electricity costs, as well as other fixed charges, that couples can split between them).

The amount of $1 050 for a person living alone or only with one or more dependent children is added to the amount of $2 200 with respect to age and the amount of $1 000 for retirement income, and the total of these amounts is reduced, on the basis of the taxpayer's income, by 15% of every dollar of the taxpayer's family income that exceeds $26 000.

However, to be entitled to the amount of $1 050 for a given taxation year, taxpayers must ordinarily live throughout that year, that is, from January 1 to December 31 inclusively, in a self-contained domestic establishment which they maintain and in which no other person, except a dependent child, lives during the year.

Since a deceased person will not have maintained a dwelling in which he lived alone or only with one or more dependent children throughout the taxation year of his death, it follows that the amount of $1 050 cannot be added to the amount with respect to age or the amount for retirement income for that taxation year.

In order to take into account the additional needs of a person who, during the year of his death, lived alone or only with one or more dependent children, the tax legislation will be amended to provide for entitlement to the amount of $1 050 where, during the taxation year concerned, the person maintained, from January 1 to the date of his death, a self-contained domestic establishment in which no one other than a dependent child lived during that period.

Once an amount representing 15% of the amount by which the total family income reported in each income tax return filed for the year of death exceeds $26 000 is subtracted from the total of the amounts for a person living alone, with respect to age and for retirement income, the result thus obtained can be split between the tax returns filed for the year.

This measure will apply beginning in the 2001 taxation year.

2 *Ibid*.

1.7.3 Tax credit respecting a spouse under the simplified tax system

Taxpayers who support their spouse are entitled to a non-refundable tax credit. This credit, whose maximum value is $1 224 in 2001[3] corresponds to an amount for recognized essential needs of $5 900 and is intended to ensure that the income devoted by taxpayers to meeting the essential needs of their spouse is not taxed, where their spouse is their dependant.

To claim this tax credit, taxpayers are obliged to file their income tax return under the rules of the general tax system, as the credit is not available under the simplified tax system.

Under the simplified tax system, the tax credit respecting a spouse is replaced by a measure under which the person who is a taxpayer's spouse on December 31 of a given year can transfer to the taxpayer the portion of his non-refundable tax credits not used to eliminate his income tax payable for the year. However, to take advantage of this transfer, both the taxpayer and the person who is his spouse at the end of the year must file their income tax return under the rules of the simplified tax system.

Where a taxpayer's spouse dies during a given taxation year, the taxpayer must file his income tax return under the rules of the general tax system in order to claim an amount respecting his spouse for that year. As a result, the taxpayer cannot claim the flat amount available under the simplified tax system.

In order to enable more people to opt for the simplified tax system, the rules of the simplified tax system will be changed so as to allow taxpayers to claim, in the calculation of their income tax otherwise payable for a given taxation year, the tax credit respecting a dependent spouse with regard to a person who died in the year and who was their spouse, provided they were not living apart from their spouse further to the breakup of their union and did not become the spouse of another person before the end of that year.

Moreover, the tax credit respecting a dependent spouse may be claimed in the principal income tax return filed for the taxation year of a person's death, where the person was supporting his spouse during that year and they were not living apart further to the break-up of their union.

This measure will apply beginning in the 2001 taxation year.

3 The maximum value of the tax credit respecting a dependent spouse was determined by taking into account the rate for converting recognized amounts to non-refundable tax credits that will apply further to the general income tax reduction announced in this Budget Speech.

1.8 Standardization of the tax treatment applicable to non-institutional family-type lodging resources

Non-institutional lodging resources play an important role in the health and social services network and in the criminal justice system because they represent one of the most appropriate responses to the community-based lodging requirements of clienteles with specific needs. Such resources can take a variety of forms, such as lodging in a family-type setting.

For example, the health and social services network has recourse to foster families and homes. In general, the *Act respecting health services and social services* defines them as being one or two natural persons who take in no more than nine users (children or adults) entrusted to them by a public institution in order to respond to the latter's needs and afford them living conditions approximating as closely as possible those of a normal family-like environment.

The penal sector has recourse to foster homes in which offenders are integrated into a family so that they can devote themselves entirely to activities aimed at their social rehabilitation.

Persons responsible for a foster family or home are treated advantageously under existing tax rules, in that certain amounts they receive on behalf of the person they lodge and the incidental income they derive from this occupation are not taxable.

As of April 1, 2001, various lodging resources will qualify for official recognition as intermediate resources under the *Act respecting health services and social services*. Some of them will be considered family-type resources on the same footing as foster families and homes. However, contrary to the prevailing situation with regard to the latter, the existing tax rules will not allow persons in charge of a family-type intermediate resource to avail themselves, in every case, of a tax-exemption respecting certain amounts received on behalf of the person they lodge or the incidental income derived from this occupation.

In order to accord these family-type lodging resources the same tax treatment as that reserved for foster families and homes, and to set clear parameters in this respect, the tax legislation will be amended to stipulate that persons are not required to include in the calculation of their income for a taxation year any amount received in the year further to the application of the rates or the scale of rates of compensation determined in accordance with the *Act respecting health services and social services* or an Order in Council rendered under the *Act respecting health services and social services for Cree native persons*, where the persons:

— have been recognized as a lodging resource by a regional health and social services board instituted under the *Act respecting health services and social services*, or act as a foster family within the meaning of the *Act respecting health services and social services for Cree native persons*; and

— lodge, at their principal place of residence, a maximum of nine persons referred to them by a public institution within the meaning of the *Act respecting health services and social services* or entrusted to them by a social service centre within the meaning of the *Act respecting health services and social services for Cree native persons*, or their principal place of residence is maintained for use as a home for such persons.

The tax legislation will also be amended to stipulate that taxpayers are not required to include in the calculation of their income for a taxation year any amount received in the year under the terms of a service contract, aimed at setting up a foster home, concluded with the Minister of Public Security in order to facilitate the social rehabilitation of the persons required to lodge there, where the following conditions are met:

— the foster home is maintained in the taxpayers' principal place of residence;

— a maximum of nine persons are required to lodge in the foster home.

These amendments will apply beginning in the 2001 taxation year.

1.9 Improvement of the deduction respecting copyright income

Under the current legislation, persons who, in a taxation year, are professional artists within the meaning of the *Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters* or the *Act respecting the professional status and conditions of engagement of performing, recording and film artists* can claim for that year a deduction in the calculation of their taxable income that exempts a portion of their income derived from copyrights of which they are the first owner, where they file their income tax return under the rules of the general tax system.

However, the deduction cannot exceed $15 000 in such income per year, and is reduced by 1.5 times the total income for the year, in excess of $20 000, derived from copyrights of which the artists are the first owner. Thus, artists who derive income for the year from the circulation of works of which they are the creator can claim a deduction for that year if the total of such income is less than $30 000 for the year.

In order to better promote the creation of original works and the emergence of new talent, the reduction threshold and factor used to calculate the amount giving entitlement to the deduction respecting copyright income will be adjusted. More specifically, the maximum amount of $15 000 will be reduced by 0.5 times an artist's total income for the year, in excess of $30 000, derived from copyrights of which the artist is the first owner.

Thus, artists will be able to claim this deduction for a taxation year if their income for the year from the circulation of works of which they are the creator is less than $60 000.

The table below illustrates the improvement of the deduction for copyright income.

TABLE 1.3

ILLUSTRATION OF THE IMPACT OF THE IMPROVEMENT OF THE DEDUCTION
(in dollars)

Copyright income	5 000	15 000	20 000	25 000	30 000	40 000	50 000	60 000
Deduction								
— Before Budget	5 000	15 000	15 000	7 500	—	—	—	—
— After Budget	5 000	15 000	15 000	15 000	15 000	10 000	5 000	—

The changes made to the deduction respecting copyright income will apply beginning in the 2001 taxation year.

1.10 Municipal electoral contributions eligible for the tax credit for political contributions

Under the *Election Act*, all electors have the right to make contributions of up to $3 000 a year in order to fund political parties and independent candidates at the national level.

For the purpose of facilitating the funding of political activity at the national level and encouraging citizens to actively participate in democratic life, the taxation system currently provides for a non-refundable tax credit that may be claimed by electors who make a monetary contribution to an official representative of an authorized political party, an authorized party authority or an authorized independent candidate within the meaning of the *Election Act*.

This tax credit, of a maximum annual value of $250, applies to the first $400 paid as contributions during the year and is equal to 75% of the first $200 thus paid and to 50% of the next $200.

Like the *Election Act*, the *Act respecting elections and referendums in municipalities* allows electors to participate in the funding of political activity, but at the municipal level, through contributions of up to $1 000 a year.

To ensure that the taxation system encourages citizens to participate in democratic life not only at the national level but also at the municipal level, a change will be made to the tax credit for political contributions so that it can be claimed with respect to municipal electoral contributions.

Moreover, in order to simplify the calculation of the tax credit and avoid favouring one type of contribution over the other, the same tax credit rate will apply to all eligible contributions, whether they are national- or municipal-level contributions.

More specifically, the tax legislation will be amended to stipulate that taxpayers may deduct in the calculation of their income tax otherwise payable for a given taxation year an amount equal to 75% of the total of the following amounts:

— the aggregate of the amounts, to a maximum of $140, each of which represents a monetary contribution paid in the year to a party or an independent candidate authorized to receive such a contribution under the *Act respecting elections and referendums in municipalities*; and

— the aggregate of the amounts, to a maximum of $400, each of which represents a monetary contribution paid in the year to a political party, a party authority or an independent candidate authorized to receive such a contribution under the *Election Act*.

Thus, from now on, Québec electors will be able to claim a non-refundable tax credit of up to $405 with respect to the contributions they make to fund political activity at the municipal and national levels.

These amendments will apply as of the 2001 taxation year.

1.11 Application of the taxation system to the new Action emploi program

Under the new Action emploi program, which is dealt with in greater detail in section 2 of the document *Additional Information on the Budgetary Measures*, certain employment-assistance recipients who integrate the job market in 2002, whether by taking full-time employment or by actively carrying on a business, will be able to receive financial assistance in the form of an income supplement for a maximum of 36 months.

The income supplement, which is added to the income derived by the recipient from the employment held or the business carried on, must be included in the calculation of the recipient's income, just like work-related income.

For this purpose, the tax legislation will be amended to stipulate that taxpayers must, as of the 2002 taxation year, include in the calculation of their income for the year, any amount received in the year as an income supplement under a project, hereinafter called the "government work incentive project", which is sponsored in particular by the government and aimed at encouraging individuals not only to obtain or keep a job, as currently provided for in the tax legislation, but also to carry on a business alone or as associates actively participating in the business. It is understood that both of these objectives may be considered separately.

Thus, any amount received under the Action emploi program must be included in the calculation of a taxpayer's income under this new general application rule.

Given the dual nature of an income supplement paid under a government work incentive project in that such a supplement is both work-related income and a government payment, various amendments will be made to the tax legislation and regulations in order to enable taxpayers to take advantage of the hybrid nature of this type of payment.

❑ Refundable tax credit for medical expenses

Generally speaking, taxpayers who meet certain conditions can claim for a given taxation year a refundable tax credit respecting the portion of their eligible medical expenses that exceeds 3% of their family income for the year (that is, their income and, where applicable, that of their spouse, at the end of the year, as determined under the simplified tax system).

Briefly, this tax credit is equal to 25% of such expenses, to a maximum of $500, and is reduced by 5% of every dollar of family income that exceeds $17 500.

To claim this refundable tax credit for a taxation year, taxpayers must, in particular, have derived at least $2 500 for the year from their work. This condition stems from the fact that the tax credit is aimed essentially at encouraging persons with disabilities to participate in the job market by offsetting the losses presupposed by this participation in terms of the special benefits available under a last-resort assistance program to cover specific needs related to their health condition.

Given the context of the refundable tax credit for medical expenses, the tax legislation will be amended to render taxpayers eligible for the credit as of the 2001 taxation year, where, in particular, the total of their work-related income for the year and any amount included in the calculation of their income for the year as an income supplement received under a government work incentive project is at least $2 500.

Consequently, taxpayers will be able to take into account any income supplement received as of the 2002 taxation year under the new Action emploi program, in order to determine their eligibility for the refundable tax credit for medical expenses.

❑ Contribution to the Health Services Fund

Under existing rules, individuals who receive income other than employment income during the year are required to pay for the year, subject to certain ceilings, a contribution to the HSF that generally equals 1% of the total of such income that exceeds $11 000.

However, certain types of income are excluded from the tax base of this contribution. These include specific government payments, such as employment-assistance benefits, indemnities paid by the Commission de la santé et de la sécurité du travail and the old age security pension.

Considering that an income supplement paid under a government work incentive project is in the nature of a government payment, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to exclude from the tax base of the contribution, as of 2001, all amounts received as such a supplement.

Accordingly, no contribution to the HSF will be payable with respect to an income supplement received as of 2002 under the new Action emploi program.

❑ Source deductions of income tax

Certain amounts paid as an income supplement under a government work incentive project are currently subject to source deductions of income tax in accordance with the usual rules applicable to the payment of remuneration.

However, under these rules, no income tax is withheld from such amounts in a number of cases.

Yet, by nature, an income supplement is to be added to the income derived by taxpayers from their employment or the operation of their business; as a result, they can be required to pay income tax on such supplements when they file their income tax return.

To ensure that taxpayers do not find themselves in this situation, the tax regulations will be amended to stipulate that 16% income tax must be deducted at source from all amounts paid after December 31, 2001 as an income supplement under a government work incentive project. Thus, the income supplement paid under the new Action emploi program will be subject to a source deduction of income tax equal to 16%.

However, no source deduction must be made respecting the income supplement paid under the Supplément de retour au travail active measure introduced by Emploi-Québec and described in the Conseil du trésor decision dealing with the terms and conditions of the Emploi-Québec active measures funded by the Fonds de développement du marché du travail.

2. MEASURES CONCERNING BUSINESSES

2.1 Measures for regions

2.1.1 Introduction of a full ten-year tax holiday for small and medium-size manufacturing enterprises in remote resource regions

To stimulate economic development in regions of Québec where the employment situation is the most difficult, a temporary tax holiday will be granted to manufacturing small and medium-size enterprises (SMEs) in remote resource regions of Québec.

TABLE 1.4

TAX HOLIDAY FOR MANUFACTURING SMEs IN REMOTE RESOURCE REGIONS – 2001
(as a percentage)

	Applicable rate	Applicable rate after tax holiday
Income tax	9.04[1]	0
Tax on capital	0.64	0
Employer contributions to the HSF	2.70[2]	0

1 Consisting of an income tax rate of 8.9% plus a contribution of 1.6% to the Youth Fund.
2 For illustration purposes only. This rate applies only to an employer whose total payroll, for a calendar year, is not more than $1 million.

More specifically, an eligible corporation that carries on a manufacturing or processing business in a remote resource region of Québec may enjoy, as of the day following the day of the Budget Speech and until December 31, 2010, a tax holiday in relation to such business, for the same tax bases as those covered by the tax holiday for new corporations, namely with respect to income tax, the tax on capital and the employer contribution to the Health Services Fund (HSF).

In addition, contrary to the situation that obtains in the case of the tax holiday for new corporations, the tax bases covered by this new tax holiday will not be subject to a cap.

However, to receive this tax holiday, for a taxation year, the paid-up capital of an eligible corporation applicable for such year, calculated on a consolidated basis, may not exceed $10 million. Furthermore, an eligible corporation may claim a partial tax holiday, for a taxation year, if its paid-up capital applicable for such year, calculated on a consolidated basis, is between $10 million and $15 million.

Lastly, when the paid-up capital of an eligible corporation applicable for a taxation year, calculated on a consolidated basis, is $15 million or more, it may not claim the tax holiday with respect to such taxation year. However, it may claim it for a subsequent taxation year if its paid-up capital applicable for such subsequent taxation year, calculated on a consolidated basis, is less than $15 million.

❑ Eligible corporation

In general, any corporation, other than an excluded corporation, which, during a taxation year, carries out all its activities exclusively from an establishment located in a remote resource region, will qualify as an eligible corporation for such year.

For the purposes of this tax holiday, the corporation must only have establishments, within the meaning of the *Taxation Act*, in the remote resource regions. As indicated above, an eligible corporation whose paid-up capital applicable to a taxation year, calculated on a consolidated basis, is less than $15 million, may claim the tax holiday for such year.

Furthermore, an eligible corporation's activities as a whole, for a taxation year, must consist mainly in carrying on a manufacturing or processing business.

For greater clarity, the word "mainly" means "above all" or "first and foremost" and accordingly indicates a preponderance that, expressed in percentage terms, means more than 50%.

Since the activities of a corporation are generally carried out by its employees, particularly in the case of a manufacturing or processing business, employee payroll will be the main criterion taken into consideration to determine whether a corporation's activities as a whole are mainly manufacturing or processing.

For this purpose, the payroll attributable to carrying on a manufacturing or processing business will be determined according to the wages incurred by the corporation in the year with respect to its employees and that can be reasonably considered to relate to manufacturing or processing activities, in view of the time the employees spend on them. For the purposes of this calculation, an employee who devotes 90% or more of his time to carrying out a manufacturing or processing activity will be deemed to devote all his time thereto.

To determine if the payroll attributable to carrying on a manufacturing or processing business accounts for more than 50% of total payroll of a corporation, only the first $125 000 of wages incurred regarding an employee, on an annual basis, will be considered, both for the calculation of payroll attributable to carrying on a manufacturing or processing business and for the calculation of a corporation's total payroll.

If the payroll criterion is not sufficient to enable the corporation to claim the tax holiday, the assets used in manufacturing or processing activities, for a taxation year, may be considered.

In this particular case, the corporation's depreciable assets must, for such taxation year, be used mainly in manufacturing or processing activities. Accordingly, for greater clarity, the portion of the cost of depreciable assets that corresponds to the degree to which each asset is used directly in manufacturing or processing activities must be greater than 50% of the cost of the corporation's depreciable assets.

For this purpose, the cost of depreciable assets, whether or not the assets are used in manufacturing or processing, corresponds to the total of, first, 10% of the total capital cost of depreciable assets belonging to the corporation at the end of the year, and which it used at any time in the year, and, second, all amounts each of which constitutes the rental cost borne during the year for the use of any asset of which a portion of the capital cost would be included in the first part of this calculation if the asset belonged to the corporation at the end of such taxation year.

Lastly, the business continuation criterion that exists in the case of the tax holiday for new corporations will not apply in the case of this new tax holiday. Accordingly, a corporation may claim this tax holiday, even if it is a subsidiary of an existing corporation that transferred a portion of its activities to it.

❑ Manufacturing or processing business

There is no definition of manufacturing and processing in the tax legislation. However, in general, the notion of manufacturing refers to the creation of something (for instance, making or assembling a machine) or the shaping, from something, of an object (for instance, manufacturing a part to be included in a machine).

The notion of processing generally refers to the technique of preparation, manipulation, or any other activity designed to produce a physical or chemical transformation in a product, an article or a substance, other than the transformation resulting from the natural growth process.

Accordingly, such activities, with the exception of the activities described below in the section "Excluded activities" will be, for the purposes of this tax holiday, manufacturing or processing activities.

Manufacturing or processing activities will also include certain activities associated with manufacturing or processing, provided they are incidental, such as:

— technical design of production installations and products;

— reception and storage of raw materials;

— production, assembly and handling or goods in process;

— inspection and packaging of finished products;

— line supervision;

— production support activities, including plant security, cleaning, heating and maintenance;

— quality and production control;

— repair of production installations;

— pollution control.

Similarly, some activities, even if they are associated with manufacturing or processing activities, will not be included in such activities for the purposes of the tax holiday, i.e.:

— storing, shipping, selling and leasing finished products;

— purchase of raw materials;

— administration, including activities relating to record-keeping and personnel;

— purchase and resale operations;

— data processing;

— supplying facilities for employees, including cafeterias, clinics and recreational facilities.

For reference purposes only, the manufacturing or processing activities included under codes 31 to 33 of the North American Industry Classification System (NAICS codes) will generally be manufacturing or processing activities for the purposes of the tax holiday.

❑ Excluded activities

For the purposes of the tax holiday, excluded activities mean:

— farming or fishing;

— logging;

— construction;

— operating an oil or natural gas well, or extracting petroleum or natural gas from a natural deposit of petroleum or natural gas;

— extracting minerals from a mineral resource;

— processing of:

  – ore, other than iron ore or ore from tar sands, from a mineral resource, up to a stage not beyond the primary metal stage or its equivalent;

  – iron ore from a mineral resource, up to a stage not beyond the pellet stage or its equivalent;

  – ore from tar sands from a mineral resource, up to a stage not beyond the crude oil stage or its equivalent;

— producing industrial minerals, other than sulphur obtained from processing natural gas;

— processing natural gas, if the gas is processed as part of a business of selling or distributing natural gas in the course of operating a public utility;

— processing, in Canada, of heavy crude oil extracted from a natural reservoir in Canada, up to a stage not exceeding that of crude oil or its equivalent.

❑ Remote resource regions

Remote resource regions will consist of the territory in the following administrative regions:

— Bas–Saint-Laurent (region 01);

— Saguenay–Lac-Saint-Jean (region 02);

— in Mauricie (region 04), the Haut-Saint-Maurice RCM and the Mékinac RCM;

— Abitibi-Témiscamingue (region 08);

— Côte-Nord (region 09);

— Nord-du-Québec (region 10);

— Gaspésie–Îles-de-la-Madeleine (region 11).

❑ Paid-up capital calculated on a consolidated basis

As previously mentioned, a corporation's paid-up capital, calculated on a consolidated basis, will be used to establish whether a corporation is eligible for the tax holiday. Moreover, when the paid-up capital of an eligible corporation applicable for a taxation year is between $10 million and $15 million, it will also be used to establish the amount of the tax holiday the corporation may claim for such year.

Accordingly, when a corporation is not associated with any other corporation in a given taxation year, the paid-up capital of the eligible corporation applicable to such given taxation year will be the one determined for its preceding taxation year. If the corporation is in its first fiscal year, the paid-up capital will be determined on the basis of its opening balance sheet prepared in accordance with generally accepted accounting principles.

Furthermore, if a corporation is associated with one or more other corporations during a given taxation year, the paid-up capital used to establish whether or not a corporation is eligible, for such taxation year, will correspond to the total of the paid-up capital of the corporation determined for its preceding taxation year and the paid-up capital of the corporations with which the corporation is associated, during the given taxation year, determined for their last taxation year ended in the twelve months preceding the beginning of the given taxation year of the corporation. Once again, if such corporation or one of the other corporations is in its first fiscal year, the paid-up capital will then be determined on the basis of its opening balance sheet prepared in accordance with generally accepted accounting principles.

In addition, the paid-up capital calculated on a consolidated basis must take into account the paid-up capital that would be attributable to a partnership, a trust or an individual, deemed associated with a corporation according to the rules described below, if such partnership, trust or individual were a corporation liable for the tax on capital.

To determine whether a corporation is associated with a partnership, a trust or an individual during a given taxation year, the following rules will apply:

— the partnership and the trust are considered a corporation all of whose voting shares belong to the members of the partnership or to the income beneficiaries of the trust at the end of the taxation year, in proportion to the distribution among them of the income or loss of the partnership or the trust for the fiscal year ending in the taxation year;

— the individual other than a trust, carrying on a business, will be considered to carry on such business through a corporation all of whose voting shares belong to the individual at the end of the taxation year.

For greater clarity, the paid-up capital of a corporation, calculated on a consolidated basis, will be the one that would be determined if no corporation could claim a deduction in calculating its paid-up capital with respect to a tax holiday.

Lastly, the paid-up capital of a corporation, calculated on a consolidated basis, will be determined on a world basis. Accordingly, the paid-up capital of the corporation or other corporations must, for the purposes of this eligibility criterion, be calculated on a world consolidated basis, even for another corporation that is not subject to the *Taxation Act.*

❑ Income eligible for the income tax holiday

In general, an eligible corporation may claim the tax holiday on all its income from an eligible business. The tax holiday will consist of a deduction in calculating taxable income.

In this regard, under the *Taxation Act,* an eligible business, in relation to any business carried on by a taxpayer in Canada, means any business carried on by the taxpayer, other than a designated investment business or a personal services business.

Furthermore, if the paid-up capital of an eligible corporation applicable for a given taxation year is greater than $10 million but less than $15 million, the income from an eligible business regarding which a deduction may be claimed must be reduced linearly. The deduction will then be equal to the income from an eligible business multiplied by the result of the following formula:

$$1 - \left[\frac{\text{(paid-up capital calculated on a consolidated basis} - \text{\$10 million)}}{\text{\$5 million}} \right]$$

Accordingly, if paid-up capital calculated on a consolidated basis is greater than or equal to $15 million, no deduction will be allowed.

In addition, if the taxation year of the eligible corporation includes the day following the day of the Budget Speech, the deduction must also be reduced, and will be allowed in proportion to the number of days of the taxation year that follow the day of the Budget Speech compared to the number of days of such taxation year.

Lastly, if the end of the taxation year of the eligible corporation does not coincide with December 31, 2010, the deduction must be calculated in proportion to the number of days of such taxation year preceding January 1, 2011 compared to the number of days of such taxation year.

❑ Paid-up capital eligible for the tax holiday

An eligible corporation may claim, for each taxation year, a tax holiday with respect to the tax on capital. This tax holiday will consist of a deduction in calculating paid-up capital, which deduction will correspond, subject to the reductions indicated below, to the amount of such paid-up capital.

However, if the paid-up capital of an eligible corporation applicable for a given taxation year is greater than $10 million but less than $15 million, the deduction in calculating paid-up capital that the eligible corporation may claim, with respect to such given taxation year, will be reduced linearly, according to the formula indicated above. For instance, an eligible corporation whose paid-up capital is $14 million, may claim a deduction, for such year, equal to 20% of its paid-up capital.

In addition, in the case of an eligible corporation whose taxation year includes the day following the day of the Budget Speech, the deduction the eligible corporation may claim in calculating its paid-up capital must also be reduced, to be allowed solely on the basis of the number of days of the taxation year that follow the day of the Budget Speech compared to the number of days of such taxation year.

Lastly, if the end of the taxation year of the eligible corporation does not coincide with December 31, 2010, the deduction in calculating paid-up capital must be calculated in proportion to the number of days of such taxation year preceding January 1, 2011 compared to the number of days of such taxation year.

❑ Tax holiday regarding the employer contribution to the HSF

An eligible corporation may claim a tax holiday regarding the employer contribution to the HSF, for wages paid or deemed paid in the course of its tax holiday period. Subject to the restrictions indicated below, the tax holiday will apply, for a given taxation year, to the total wages paid or deemed paid by an eligible corporation in the course of such given taxation year.

However, if the paid-up capital of an eligible corporation applicable for a given taxation year is greater than $10 million but less than $15 million, the exemption from the employer contribution to the HSF applicable to pay periods ending in such taxation year will be reduced linearly, according to the formula indicated above. For instance, if the paid-up capital applicable to such given taxation year is $12 million, the exemption from the employer contribution to the HSF, applicable to such taxation year, will accordingly be reduced to 60%.

In addition, in the case of an eligible corporation whose taxation year includes the day following the day of the Budget Speech, the exemption the eligible corporation may claim, for such year, will also be reduced to take into consideration only the wages paid or deemed paid since the first pay period that includes the day after the day of the Budget Speech.

Lastly, the exemption an eligible corporation may claim for its taxation year that includes December 31, 2010 must also be reduced to reflect solely the wages paid or deemed paid until the last pay period preceding January 1, 2011.

❑ Other application details

A corporation that seeks to benefit from the portion of the tax holiday regarding income tax and the tax on capital, for a taxation year, must enclose with its tax return, for such taxation year, the form prescribed by the ministère du Revenu du Québec (MRQ). In the specific case of the exemption from employer contributions to the HSF, for a calendar year, the taxpayer must enclose a form prescribed by the MRQ with the *Summary of Source Deductions and Employer Contributions*.

A corporation that currently claims the tax holiday for new corporations and that would otherwise be entitled to the tax holiday for manufacturing SMEs in remote resource regions, may, as of a taxation year ending after the day of the Budget Speech, irrevocably elect the new tax holiday, instead of the tax holiday for new corporations, for such taxation year and subsequent taxation years.

❑ Excluded corporation

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

— a corporation that is tax-exempt for the taxation year;

— a Crown corporation or a wholly-controlled subsidiary of such a corporation.

❑ Anti-avoidance rules

Lastly, an anti-avoidance rule will stipulate that a corporation may not be entitled to this tax holiday if, because of transactions or operations, the MRQ may reasonably consider that one of their main goals is to enable the corporation to claim a tax holiday it would otherwise not have obtained.

In addition, a special rule will stipulate that a corporation otherwise eligible for the tax holiday, for a taxation year, may not claim the holiday if the paid-up capital of such corporation determined on a consolidated basis, for such taxation year, increases by more than $15 million compared to the paid-up capital of the eligible corporation applicable for such taxation year.

However, in such a case, certain relief measures will be provided in order not to unduly penalize a corporation that, further to the application of this special rule, would be unable to claim the tax holiday because of such an increase in its paid-up capital during a given taxation year. Accordingly, the interest and penalties payable by such a corporation, if any, regarding the three tax bases covered by the tax holiday, will begin to apply only as of the day following the period of two months after the end of the given taxation year of the corporation.

❑ Period of eligibility for the tax holiday

The tax holiday will be granted to an eligible corporation for a taxation year ending after the day of the Budget Speech, and for a period not exceeding December 31, 2010, according to the specific terms and conditions indicated above.

2.1.2 Introduction of a refundable tax credit for processing activities in resource regions

Over the past year, the government has used a variety of fiscal measures to accelerate economic development in certain regions. Accordingly, in the March 14, 2000 Budget Speech, a refundable tax credit was introduced regarding the Vallée de l'aluminium, for the Saguenay–Lac-Saint-Jean region. In addition, on November 17, 2000,[4] a similar measure was announced, in that case for Gaspésie–Îles-de-la-Madeleine and certain maritime regions of Québec.

Furthermore, the economy of Québec's resource regions depends, to a large extent, on natural resources development, in particular forestry and mining. The industrial structure of these regions is marked by a virtual absence of manufacturing or processing of resources into high value-added finished or semi-finished products. In addition, the employment situation is generally most difficult in these resource regions.

To encourage economic diversification in resource regions and stimulate the development and expansion of businesses, a temporary refundable tax credit will be introduced for specific activities, other than primary processing activities, carried out in the manufacturing and processing sectors.

More specifically, this tax credit will be granted, as of calendar year 2001, regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in a resource region of Québec, in the sector involving the processing of natural resources or certain products, the production of energy or aquaculture.

An eligible corporation may claim this tax credit regarding five calendar years.

4 Ministère des Finances du Québec, Bulletin d'information 2000-8.

❑ Eligible corporation

In general, any corporation, other than an excluded corporation, which, during a calendar year, carries on a certified business in an eligible region and has an establishment there, may, under certain conditions, claim the tax credit regarding such calendar year.

❑ Certified business

For the purposes of the tax credit, a "certified business" means a business regarding which Investissement Québec has issued an eligibility certificate, and whose activities are, in relation to the following sectors:

— Wood processing sector

  – the manufacturing and processing of finished or semi-finished products from wood, or the manufacturing of specialized equipment intended for logging or wood processing;

  – the manufacturing and processing of products from paper or cardboard, or the manufacturing of specialized equipment intended for manufacturing of paper or cardboard;

— Metal processing sector

  – the manufacturing and processing of finished or semi-finished products from metal, or the manufacturing of specialized equipment intended for mining exploration or metal processing;

— Food processing sector

  – the manufacturing and processing of food;

— Energy sector

  – the environmentally friendly production of non-conventional energy from biomass or hydrogen;

  – the manufacturing of products or specialized equipment intended for energy production or the use of energy;

— Other sectors

  – the manufacturing and processing of finished or semi-finished products from peat, the development and recycling of waste and residue resulting from the development or processing of natural resources, fresh water aquaculture or the manufacturing of specialized equipment for fresh water aquaculture.

Moreover, a “certified business” will also include commercialization activities incidental to these activities.

In addition, a “certified business” means any other business whose activities are related to these sectors and for which Investissement Québec has issued an eligibility certificate.

However, the activities mentioned above may not be recognized as the activities of a certified business if they are carried out by a corporation all of whose activities consist mainly in supplying services. For greater clarity, activities relating to the wholesale and retail trade, as well as lodging and restaurant services, will be considered as services.

In addition, activities relating to the manufacturing of paper pulp, paper or cardboard, to the primary processing of metals, to the manufacturing of finished or semi-finished products from non-metallic minerals (other than peat), or the sawing of logs or bolts for structural lumber or similar products, may not be recognized as activities of a certified business.

Similarly, the activities covered by the refundable tax credit for the Vallée de l’aluminium and by the refundable tax credit for Gaspésie and certain maritime regions of Québec, may not be recognized as activities of a certified business for the purposes of the refundable tax credit for processing activities in resource regions.

Lastly, while the eligibility certificates regarding a certified business will be issued by Investissement Québec, its regional network will carry out assessment and monitoring for the purposes of the tax credit.

❑ Eligibility certificate

To obtain an eligibility certificate regarding a business, an eligible corporation must demonstrate, to the satisfaction of Investissement Québec, that the business for which an application is made will contribute, within what is considered a reasonable time, to the creation, in an establishment of the eligible corporation located in an eligible region, of a minimum of three full-time jobs. For the purposes of this criterion, Investissement Québec may also include part-time or seasonal jobs which, taken as a whole, are the equivalent of a minimum of three full-time jobs. The increase in the number of days worked by existing employees may also be included for the purposes of this criterion.

However, Investissement Québec will not issue an eligibility certificate for a business that, in its view, is the continuation of a certified business or part of a certified business for which an eligibility certificate has previously been issued.

❑ Eligible regions

Eligible regions will consist of the territory in the following administrative regions:

— Bas–Saint-Laurent (region 01);

— Saguenay–Lac-Saint-Jean (region 02);

— Mauricie (region 04);

— Abitibi-Témiscamingue (region 08);

— Côte-Nord (region 09);

— Nord-du-Québec (region 10);

— Gaspésie–Îles-de-la-Madeleine (region 11).

❑ Eligible employee

An “eligible employee” of an eligible corporation means an employee of an establishment of such corporation located in an eligible region.

In addition, at least 75% of the duties of such employee, with the eligible corporation, must be devoted to carrying out, supervising or directly supporting the activities of the certified business carried on by the eligible corporation. For greater clarity, duties relating to general administration, such as administrative services, are ineligible.

Lastly, the MRQ may consult Investissement Québec to learn whether a given employee qualifies as an eligible employee. For greater clarity, only the information needed to obtain an opinion from Investissement Québec will be forwarded by the MRQ, in order to preserve the otherwise confidential nature of the information obtained by the MRQ in the course of applying a tax law.

❑ Procedures for determining the tax credit

An eligible corporation may, regarding a calendar year, claim the refundable tax credit based on the increase in payroll attributable to its eligible employees, according to the following formula:

$$\text{Amount of tax credit} = 40\% \times (A - B)$$

Where:

— the letter A represents the total wages paid by the corporation to its eligible employees for the calendar year;

— the letter B represents the total wages paid by the corporation to its eligible employees for its reference calendar year.

- **Concept of wages**

The wages that must be considered for the application of this formula will be the employment income of an eligible employee, excluding director's fees, a bonus, performance premium, remuneration for work done in excess of normal work hours, a commission and taxable benefits that must be included in calculating such employee's income. However, in the specific case of an eligible employee whose activities are related to the commercialization of the results of the activities of the certified business carried on by the eligible corporation, the wages that must be considered do include performance premiums and commissions paid to such employee by the eligible corporation.

- **Reference calendar year**

In the case where an eligible corporation begins to carry on a certified business in an eligible region prior to calendar year 2002, the reference calendar year of such corporation, regarding such certified business, is calendar year 2000.

In the case where an eligible corporation begins to carry on a certified business in an eligible region after calendar year 2001, the reference calendar year of such corporation, regarding such certified business, will correspond to the calendar year that precedes the one during which it begins to carry on a certified business in the eligible region.

For greater clarity, in the case where an eligible corporation did not carry on a business in Québec during its entire reference calendar year, the amount of wages paid to its eligible employees, for such year, will not be prorated.

In addition, if an eligible corporation paid no wages to its eligible employees during its reference calendar year, in the case of a newly formed corporation that establishes itself in an eligible region for instance, it may claim the tax credit on the basis of the total increase in payroll attributable to its eligible employees, subject, in particular, to the rules described below relating to associated corporations and activities transferred from one person to another.

Lastly, if an eligible corporation carries on more than one business for which eligibility certificates have been issued, each certified business shall constitute a separate business for the purposes of the tax credit. Consequently, the increase in payroll will be determined certified business by certified business.

- **Integrity of the tax credit**

To determine the tax credit, an eligible corporation having both an establishment in an eligible region and another establishment elsewhere in Québec must calculate the increase in payroll attributable to eligible employees as if it had an establishment only in the eligible region. The amount giving rise to the tax credit may not, however, exceed the total amount of the increase in payroll attributable to its eligible employees and to eligible employees of an establishment of the corporation located in Québec who would be eligible employees had they been employees of an establishment of the corporation located in the eligible region.

Also, special rules will be stipulated concerning business continuations, to adjust the amount of the increase in payroll of an eligible corporation when the activities the eligible corporation, a person or partnership carried out in Québec, in relation to a business, decline or cease and, as a result, the activities of the eligible corporation relating to a certified business commence or increase in scope, in an establishment of such eligible corporation located in an eligible region.

Accordingly, regarding the merger and winding-up of corporations, rules will be stipulated to take into consideration the attributes of the corporations replaced in such operations. Furthermore, the continuation of a business previously carried on by another taxpayer as well as the alienation of a business will also be taken into consideration.

In addition, the existence of an increase in payroll attributable to eligible employees of an establishment located in an eligible region, for a calendar year, will be determined on a consolidated basis, by considering the attributes of each of the corporations associated among themselves at the end of such calendar year.

For the purposes of this rule, an associated corporation having both an establishment in an eligible region and another establishment elsewhere in Québec shall be considered as a separate corporation regarding each of these establishments.

Moreover, associated corporations must divide the amount of the increase in payroll attributable to eligible employees among themselves, by filing an agreement to that end with the MRQ. However, the amount allocated in this way to an eligible corporation may not exceed the amount of the increase in payroll attributable to its eligible employees of an establishment located in the eligible region.

- **Reduction in the amount of wages paid to eligible employees**

The total amount of wages paid to eligible employees by an eligible corporation, or to employees of an establishment of the corporation located in Québec who would be eligible employees had they been employees of an establishment of the corporation located in the eligible region, for a calendar year, must be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit, according to the usual rules.

Furthermore, this amount must also be reduced by the amount of wages for which another refundable tax credit is granted as well as by the amount of wages paid to an eligible employee, for a week regarding which a tax credit for on-the-job training periods was or will be allowed in relation to such employee.

However, these reductions, for the reference calendar year, may not exceed the reductions calculated for the calendar year regarding which the tax credit is determined.

❑ Other application details

If a wage expenditure regarding which a tax credit has been allowed is refunded to the eligible corporation, the tax credit thus allowed will be recaptured by means of a special tax. Such will also be the case if the eligibility certificate issued in relation to a certified business with respect to which a tax credit has been granted is revoked by Investissement Québec.

Moreover, for a corporation's first year of eligibility for the tax credit, its amount may not be applied against the corporation's instalments regarding income tax and the tax on capital.

However, for a given subsequent taxation year, a corporation that expects to maintain its payroll attributable to eligible employees for a calendar year ended in such given subsequent taxation year, compared to the preceding calendar year, may reduce the amount of its instalments, determined according to each method available, by an amount corresponding to the tax credit allowed for the taxation year preceding the given subsequent taxation year. More specifically, such reduction must be attributed proportionally to each instalment.

To receive this tax credit, for a calendar year, an eligible corporation must enclose with its tax return, for its taxation year in which such calendar year ends, a form prescribed by the MRQ as well as a copy of the eligibility certificate issued by Investissement Québec regarding its certified business.

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

Lastly, for greater clarity, this new refundable tax credit will be taxable. However, to determine the amount, it will not be considered as an amount of assistance or as an incentive payment.

❑ Excluded corporation

An "excluded corporation", regarding a calendar year, means :

— a corporation that is tax-exempt for the taxation year in which the calendar year ends;

— a Crown corporation or a wholly-controlled subsidiary of such a corporation.

❑ Interim financing of the tax credit

Investissement Québec may offer, in certain cases, a loan guarantee to ensure interim financing of the tax credit.

❑ Eligibility period for the tax credit

The tax credit will be granted to an eligible corporation for five consecutive calendar years, beginning with the one during which a certified business begins to be carried on in an eligible region.

However, to receive this tax credit, an eligible corporation must begin carrying on a certified business in an eligible region no later than during calendar year 2004.

2.1.3 Improvement to the refundable tax credit for the Vallée de l'aluminium

The refundable tax credit for the Vallée de l'aluminium was introduced in the March 14, 2000 Budget Speech. Certain clarifications were subsequently made on December 21, 2000 concerning the notion of manufacturing.[5]

This tax credit, whose rate is 40%, is allowed regarding the increase in payroll attributable to production or commercialization employees of an eligible corporation operating in the field of manufacturing certain products or equipment relating to aluminum, in the administrative region of the Saguenay–Lac-Saint-Jean (region 02). The tax credit currently applies for calendar years 2000 to 2003.

5 Ministère des Finances du Québec, Bulletin d'information 2000-10.

More specifically, for the purposes of this tax credit, a corporation must carry on, in the administrative region of the Saguenay–Lac-Saint-Jean, a certified business for which Investissement Québec has issued an eligibility certificate and whose activities consist in:

— manufacturing, in whole or in part, finished or semi-finished products from aluminum which has already undergone primary processing and, incidentally, as the case may be, commercializing them; or

— manufacturing specialized equipment for aluminum production or aluminum processing businesses and, incidentally, as the case may be, commercializing it.

❑ Broadening of the notion of "certified business"

The notion of "certified business" will be broadened, beginning in calendar year 2000, to also designate a business whose activity is the development and recycling of waste and residue resulting from aluminum processing.

❑ Standardization of job creation measures

According to existing terms and conditions, an eligible corporation operating in the Saguenay–Lac-Saint-Jean administrative region may claim the tax credit regarding a single calendar year if the increase in payroll is limited to that specific year. Accordingly, to claim this tax credit regarding more than one calendar year, the corporation must increase its payroll each year.

Furthermore, the refundable tax credit for processing activities in resource regions will enable eligible corporations to receive a tax credit regarding five calendar years even if the increase in payroll is limited to a single year.

To standardize the measures for processing activities in the regions, the application details of the refundable tax credit for the Vallée de l'aluminium will be harmonized with those of the refundable tax credit for processing activities in resource regions.

Briefly, the refundable tax credit for the Vallée de l'aluminium will be allowed regarding five consecutive calendar years, beginning in the one during which a certified business begins to be carried on.

In addition, two streamlining measures will be made to the definition of eligible employee for the purposes of this tax credit. Lastly, the eligibility period for this tax credit will be extended.

These measures will further stimulate, in the Saguenay–Lac-Saint-Jean administrative region, the manufacturing of finished or semi-finished products from aluminum that has already undergone primary processing, the manufacturing of specialized equipment for aluminum production or aluminum processing businesses, and the development and recycling of waste and residue resulting from the processing of aluminum.

- **Determination of the tax credit**

To illustrate, an eligible corporation may, regarding a calendar year, receive the refundable tax credit based on the increase in its payroll attributable to its eligible employees, according to the following formula:

Amount of tax credit = 40% x (A – B)

Where:

— the letter A represents the total wages paid by the corporation to its eligible employees for the calendar year;

— the letter B represents the total wages paid by the corporation to its eligible employees for its reference calendar year.

In the case where an eligible corporation begins to carry on a certified business in the eligible region prior to calendar year 2001, the reference calendar year of such corporation, regarding such certified business, will be calendar year 1999.

In the case where an eligible corporation begins to carry on a certified business in the eligible region after calendar year 2000, the reference calendar year of such corporation, regarding such certified business, will correspond to the calendar year preceding the one during which it begins to carry on a certified business in such region.

For greater clarity, in the case where an eligible corporation does not carry on a business in Québec during its entire reference calendar year, the amount of wages paid to its eligible employees, for such year, will not be prorated.

- **Eligible employee**

According to existing terms and conditions, an “eligible employee” of an eligible corporation means an employee of an establishment of such corporation located in the eligible region, who is not a specified shareholder of such corporation.

In addition, at least 90% of the duties of such employee, with the eligible corporation, must be devoted directly:

— either to the manufacturing of finished or semi-finished products from aluminum that has already undergone primary processing or, if applicable, their commercialization;

— or to the manufacturing of specialized equipment for aluminum production or aluminum processing businesses or, if applicable, their commercialization.

Beginning in calendar year 2001, the restriction concerning the status of specified shareholder will be eliminated. In addition, an employee at least 75% of whose duties are devoted to the above-mentioned activities or to activities involving the development and recycling of waste and residue resulting from the processing of aluminum, may qualify as an eligible employee for the purposes of the refundable tax credit for the Vallée de l'aluminium. Items A an B of the formula for determining the tax credit will accordingly have to be adjusted, for 2001 and subsequent years, to reflect this change.

- **Eligibility period for the tax credit**

The refundable tax credit for the Vallée de l'aluminium will henceforth be granted to an eligible corporation regarding five consecutive calendar years, beginning in the one during which a certified business begins to be carried on in an eligible region after December 31, 1999.

However, to receive this tax credit, an eligible corporation must begin carrying on a certified business in the Saguenay–Lac-Saint-Jean administrative region no later than during calendar year 2004.

❑ Interim financing of the tax credit

Investissement Québec may offer, in certain cases, a loan guarantee to ensure interim financing of the tax credit.

2.1.4 Changes to the refundable tax credit for Gaspésie and certain maritime regions of Québec

The introduction of a refundable tax credit for Gaspésie and certain maritime regions of Québec was announced on November 17, 2000.[6] This tax credit, which has a 40% rate, is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in certain maritime regions of Québec, namely Gaspésie–Îles-de-la-Madeleine, the Côte-Nord and the Matane RCM.

In general, this refundable tax credit is allowed for specific activities carried out in sectors involving the development of marine or wind-power resources, to offset the costs associated with creating or expanding a certified business in these sectors.

6 Ministère des Finances du Québec, Bulletin d'information 2000-8.

For the purposes of the tax credit, a "certified business" means a business regarding which Investissement Québec has issued an eligibility certificate, and whose activities are:

— the processing of sea products (fish or shellfish) and, incidentally, the commercialization of the results of such activities;

— the manufacturing and processing of finished or semi-finished products in the marine biotechnology field and, incidentally, as the case may be, the commercialization of the results of such activities;

— the manufacturing of wind generators or specialized equipment intended for the production of wind power and, incidentally, as the case may be, the commercialization of the results of such activities; or

— mariculture or the manufacturing of specialized equipment for mariculture and, incidentally, as the case may be, the commercialization of the results of such activities.

❑ Broadening of the notion of "certified business"

To encourage the development of wind power in Québec, a "certified business" will also mean a business whose activity is the production of wind power.

The eligible region, regarding a certified business whose activities are the production of wind power, the manufacturing of wind generators or specialized equipment intended for the production of wind power, will consist of the territory included in the administrative region of Gaspésie–Îles-de-la-Madeleine (region 11) and in the Matane RCM.

This change will apply retroactively as of calendar year 2000.

❑ Calculation of payroll for the reference calendar year

Under existing rules, an eligible corporation may, regarding a calendar year, claim the refundable tax credit based on the increase in payroll attributable to its eligible employees, according to the following formula:

$$\text{Amount of tax credit} = 40\% \times (A - B)$$

Where:

— the letter A represents the total wages paid by the corporation to its eligible employees for the calendar year;

— the letter B represents the total wages paid by the corporation to its eligible employees for its reference calendar year.

For the purposes of the calculation, the existing terms and conditions stipulate that the total amount of wages paid to eligible employees by an eligible corporation, or to employees of an establishment of the corporation located in Québec who would be eligible employees if they were employees of an establishment of the corporation located in the eligible region, for a calendar year, must be reduced by the amount of any government assistance, any non-government assistance and any profit or gain, according to the usual rules.

Furthermore, the total amount of wages paid to eligible employees by an eligible corporation, for a calendar year, must also be reduced by the amount of wages for which another refundable tax credit is allowed, as well as by the amount of wages paid to an eligible employee, for a week regarding which a tax credit for on-the-job training periods was or will be allowed in relation to such employee.

As of calendar year 2000, these rules will be changed so that such reductions, for the reference calendar year, may not exceed the reduction calculated for the calendar year regarding which the tax credit is determined.

❑ Adjustment of instalments

Currently, the refundable tax credit for Gaspésie and certain maritime regions of Québec cannot be applied against an eligible corporation's instalments regarding income tax and the tax on capital.

Retroactive to taxation year 2000, this provision will be maintained only for the first year of eligibility for this tax credit. Accordingly, for a given subsequent taxation year, a corporation that expects to maintain its payroll attributable to eligible employees for a calendar year ended in such given subsequent taxation year, compared to the preceding calendar year, may reduce the amount of its instalments, determined according to each method available, by an amount corresponding to the tax credit allowed for the taxation year preceding the given subsequent taxation year. More specifically, such reduction must be attributed proportionally to each instalment.

❑ Interim financing of the tax credit

Investissement Québec may offer, in certain cases, a loan guarantee to ensure interim financing of the tax credit.

2.1.5 Replacement of the flow-through share system with a refundable tax credit

During the last few years, a task force, formed of representatives of the ministère des Ressources naturelles (MRN), the MRQ and the ministère des Finances, has studied various scenarios, in consultation with the industry, with a view to proposing measures to provide effective support for mining, oil and gas exploration in Québec. This task force was to determine, in particular, the relevance of maintaining the flow-through share system for providing outside financing.

On November 17, 2000, while the task force had not completed its work, though it was well advanced, the government announced the broad principles of the changes it envisaged implementing.[7] It also indicated that a transition period would be allowed to enable the industry to adapt to these changes. Accordingly, the tax incentives regarding exploration expenses incurred in Québec, which were due to expire at the end of December, were extended for another year, i.e. for calendar year 2001.

As part of the changes under consideration, the government has indicated that it intends to replace all the tax benefits relating to flow-through shares, including the basic deductions of 100%, with a more direct assistance mechanism, namely a refundable tax credit regarding exploration expenditures. It also specified that this new tax assistance mechanism would also apply to expenses relating to renewable energy and energy conservation in Canada since these expenses are currently covered by a flow-through share system.

The task force has completed its work. The specific details of the tax credit have been decided, as have the rules that should enable a smooth transition to the new tax assistance mechanism. Accordingly, to follow up on the announcement of November 17, 2000, the flow-through share system will be replaced with a refundable tax credit.

This new tax assistance mechanism should attract more investors, since the assistance a corporation receives to enable it to incur expenses will be the same, whether the investors are individuals, corporations or foreign investors. Furthermore, this new tax assistance mechanism will avoid a major problem inherent in granting indirect tax assistance, namely the consequences of a downward adjustment, by the tax authorities, of the amounts foregone in favour of investors.

Accordingly, an eligible corporation that incurs eligible expenses, during a taxation year, may henceforth claim a refundable tax credit, for such year, of up to 45% of the amount of such eligible expenses.

7 Ministère des Finances du Québec, Bulletin d'information 2000-9.

❑ 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.

❑ Eligible expenses

The expression “eligible expenses” of an eligible corporation, for a taxation year, means all the expenses it incurs, during such year, and attributable:

— either to exploration expenses that, under the existing flow-through share system, enable an individual to claim a deduction of at least 125%;

— or to expenses incurred in Québec and relating to renewable energy and energy conservation that currently allow an individual to claim a deduction of 100%.

For greater clarity, the exploration expenses which, under the existing flow-through share system, enable an individual to claim a deduction of at least 125%, include certain Canadian development expenses incurred in Québec that are deemed to be exploration expenses incurred in Québec, thus allowing an individual to claim a deduction of 125%, and Québec surface mining exploration, oil or gas exploration expenses that enable an individual, with the addition of a further deduction of 50%, to claim a total deduction of 175%.

Since the tax credit rates described below will not distinguish between the various types of exploration, the notion of Québec surface mining exploration expense will not be carried over into the new assistance mechanism.

Moreover, the eligible expenses must be reduced by the amount of any government assistance, any non-government assistance and any profit or gain, according to the usual rules.

❑ Rates of the refundable tax credit

The basic rate of the tax credit a corporation may claim will be 20%. This rate will be raised to 40% regarding eligible expenses incurred by a corporation that does not operate any mineral resource or oil or gas well, and which is not related to a corporation that operates a mineral resource or oil or gas well. In addition, the rates of 20% and 40% will be raised to 25% and to 45%, respectively, regarding eligible expenses incurred by an eligible corporation in Québec’s Near North or Far North. In the specific case of expenses incurred in Québec and relating to renewable energy and energy conservation, a single rate of 40% will apply.

For greater clarity, the operation of a mineral resource or oil or gas well means such an operation in reasonable commercial quantities.

Furthermore, it is appropriate to specify that the amount of assistance provided, regarding exploration expenses incurred in Québec, Canadian development expenses incurred in Québec that are deemed to be exploration expenses incurred in Québec, as well as expenses incurred in Québec and relating to renewable energy and energy conservation, under the new tax credit, has been set on the basis of the maximum deduction of 175% an individual could claim under the flow-through share system.

❑ Change to the definition of the Near North and Far North

Under existing rules, the Near North means, for the purposes of the *Taxation Act*, the territory covered by the Programme d'exploration minière du Moyen-Nord of the MRN at the time of the introduction of an additional 25% deduction regarding exploration expenses incurred in this territory, i.e. in the March 31, 1998 Budget Speech. The territory in question was north of the towns of Matagami and Chibougamau, between 50º30' and 54º00' latitude and bounded on the east by the Grenville front, as well as part of the territory of the Côte-Nord between Baie-Johan-Beetz and the Petit Mécatina river. The Far North designated the territory north of the 54th parallel.

Since then, the territory covered by the MRN's Programme d'exploration minière du Moyen-Nord has been expanded. The territory covered by this assistance program is now the territory north of the towns of Matagami and Chibougamau, between 50º30' and 55º00' latitude and bounded to the east by the Grenville front, as well as part of the territory of the Côte-Nord between the 59th and 66th parallels.

A change will be made to the definition of the northern exploration zone in the *Taxation Act* so that the Near North will designate, for the purposes of this Act, the territory currently covered by the MRN's Programme d'exploration minière du Moyen-Nord. As a corollary, the Far North will designate the territory north of the 55th parallel.

❑ Interaction of the flow-through share system and the new refundable tax credit

The flow-through share system may continue to be used for the rest of 2001, before it is completely replaced by the new tax credit. Accordingly, Canadian exploration expenses and expenses relating to renewable energy and energy conservation in Canada, whether incurred inside or outside Québec, may, for calendar year 2001, continue to be foregone in favour of an investor under the flow-through share system. Consequently, only those eligible expenses that have not been foregone for the purposes of the *Taxation Act* under the flow-through share system may enable an eligible corporation to benefit from the new assistance mechanism.

Moreover, the additional 25% deduction a corporation may claim, under the *Taxation Act* and the *Mining Duties Act,* regarding certain exploration expenses incurred in Québec's Near North and Far North, will also be eliminated as of January 1, 2002. However, the expenses giving rise to this additional deduction may continue, for the remainder of 2001, to be foregone in favour of an investor if such investor is a corporation and these exploration expenses are financed with flow-through shares. On the other hand, this additional deduction may no longer be claimed by the corporation that incurs eligible expenses if it can claim the new tax credit, i.e. for expenses incurred after the day of the Budget Speech.

❑ Other application details

For greater clarity, only the corporation that incurs eligible expenses, either directly or through a partnership, may claim the refundable tax credit. Accordingly, for calendar year 2001, a corporation that, because it acquired flow-through shares and expenses were foregone in its favour by a corporation that incurs exploration expenditures, may claim a deduction regarding such exploration expenses, may not claim the new tax credit.

If eligible expenses for which a tax credit is granted are paid back to the eligible corporation, in whole or in part, the tax credit thus granted will be recaptured by means of a special tax.

This tax credit may be applied against any instalment payments that must be made by an eligible corporation, for income tax and the tax on capital.

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 will not be taxable, either under the *Taxation Act* or under the *Mining Duties Act*. Accordingly, it need not be added in calculating income or in calculating the annual profit of an eligible corporation, and will not reduce the exploration expenses that can be so deducted by such a corporation.

Lastly, the eligible expenses regarding which a tax credit is claimed, by the eligible corporation, must have been paid at the time the tax credit is claimed.

❑ Excluded corporation

An "excluded corporation", for a taxation year, means:

— a corporation that is tax-exempt for the year;

— a Crown corporation or a wholly-controlled subsidiary of such corporation.

❑ Certain measures maintained

For greater clarity, the existing rules allowing an individual to claim an additional deduction regarding certain issue expenses may continue to apply for the remainder of 2001, if the shares to which such expenses relate are flow-through shares.

Furthermore, the additional capital gains exemption in respect of certain resource properties will also be maintained. Accordingly, an individual who is not a trust may continue to benefit from such additional exemption regarding properties covered by this additional exemption, even if the property is alienated after December 31, 2001.

Moreover, since eligible expenses may no longer be foregone in favour of acquirers of flow-through shares and accordingly may no longer enable these acquirers to claim a basic deduction of 100%, a corporation that incurs such expenses may continue to claim such 100% deduction regarding such expenses.

It should also be specified that Canadian development expenses[8] that currently allow a taxpayer to claim a declining annual deduction of 30%, as well as the expenses regarding Canadian oil and gas property expenses that currently allow a taxpayer to claim a declining annual deduction of 10%, will not be covered by the new assistance mechanism. Accordingly, a corporation that incurs such expenses may continue to claim these deductions regarding such expenses, but may no longer forego them in favour of a third party.

Lastly, the *Mining Duties Act* grants preferred tax treatment regarding mining exploration, in particular an additional exploration allowance equal to 50% of certain exploration expenses. This additional allowance will be maintained. Accordingly, a corporation that incurs eligible expenses may, under the new assistance mechanism, claim this additional allowance regarding its exploration expenses. Note that under the flow-through share system, a corporation that incurs exploration expenses, and which foregoes them in favour of investors, can generally not claim this additional allowance.

8 Excluding those incurred in Québec and deemed to be exploration expenses incurred in Québec allowing an individual to claim a deduction of 125%.

❑ Rates of the tax credit and applicable deductions

The following table shows the treatment of eligible expenses under the new assistance mechanism.

TABLE 1.5

RATES OF THE TAX CREDIT AND APPLICABLE DEDUCTIONS
(as a percentage)

	Corporation not operating any mineral resource or oil or gas well	Other corporations
Refundable tax credit regarding eligible expenses incurred:		
— in the Near North or Far North	45	25
— elsewhere in Québec	40	20
Deductibility of eligible expenses:		
— under the *Taxation Act*	100	100
— under the *Mining Duties Act,*[1] if applicable:		
– basic deduction	100	100
– additional exploration allowance[2]	—	50

1 The deductions apply only to corporations subject to this legislation.

2 This additional exploration allowance is, however, limited to 50% of the annual ceiling on expenses, i.e. the annual profit calculated without taking certain allowances into account. A corporation that has little or no annual profit accordingly cannot fully benefit from it, which is necessarily the case for a corporation that does does not operate any mineral resource.

❑ Interim financing of the refundable tax credit

The MRN will implement a program to facilitate financing of eligible expenses to cover the period between the time the expenditures relating to these expenses are realized and the time the tax credit is received.

❑ Application dates

The refundable tax credit will apply, subject to expenses foregone in favour of an investor under the flow-through share system, regarding eligible expenses incurred after the day of the Budget Speech.

The changes to the definition of the Near North and the Far North will apply regarding exploration expenses incurred after December 31, 2000.

Lastly, the tax benefits relating to flow-through shares will be abolished regarding shares acquired after December 31, 2001.

2.1.6 Formation of Capital régional et coopératif Desjardins

The Mouvement Desjardins has approached the government with a proposal to form Capital régional et coopératif Desjardins, a joint stock company with the mission of marshalling venture capital for the resource regions of Québec[9] and cooperatives.

The government wishes to support the initiative of the Mouvement Desjardins by granting a tax benefit to Quebecers who become shareholders of Capital régional et coopératif Desjardins.

❑ Maximum authorized capital

The government will allow Capital régional et coopératif Desjardins to collect, from now to December 31, 2010, up to $1.5 billion of capital enjoying a tax benefit. Capital may increase by $150 million a year. However, should the increase in capital for a given year be less than $150 million, the difference between the latter amount and the increase in capital obtained for the year may be added to the limit applicable for a subsequent year.

The following table shows the maximum amount that the paid-up capital of the issued and outstanding shares of Capital régional et coopératif Desjardins may reach at the end of each year in the period beginning on the date of its incorporation and ending on December 31, 2010.

TABLE 1.6

MAXIMUM AUTHORIZED CAPITAL AT THE END OF THE YEAR
(in millions of dollars)

Year	Maximum paid-up capital	Year	Maximum paid-up capital
2001	150	2006	900
2002	300	2007	1 050
2003	450	2008	1 200
2004	600	2009	1 350
2005	750	2010	1 500

9 The expression “resource regions” designates the following regions: Abitibi-Témiscamingue, the Bas–Saint-Laurent, the Côte-Nord, Gaspésie–Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay–Lac-Saint-Jean.

Should the paid-up capital of the issued and outstanding shares of the capital stock of Capital régional et coopératif Desjardins exceed at the end of a year in the period beginning on the date of its incorporation and ending on December 31, 2010, the maximum paid-up capital stipulated for such year, Capital régional et coopératif Desjardins must pay, for such year, a special tax of an amount equal to 50% of such excess amount, from which all the amounts paid under such special tax for a prior year must be subtracted.

This special tax will be payable no later than March 31 of the year following the year for which it is payable.

❑ Description of capital stock

Capital régional et coopératif Desjardins will be authorized to issue shares or fractions of shares, without par value, that may be redeemed in the following cases:

— at the request of the person who acquired them at least seven years previously;

— at the request of the person who acquired them, if he is declared to be suffering from a severe and prolonged mental or physical disability that makes him unfit to continue his work;

— at the request of the person who acquired them, if he so requests in writing within 30 days of their subscription date;

— at the request of a person who receives such shares or fractions of shares in an inheritance.

Only a natural person may acquire or hold a share or fraction of a share of Capital régional et coopératif Desjardins. The holder of a share or fraction of a share may not alienate such share or fraction of a share and such share or fraction of a share may be purchased by agreement by Capital régional et coopératif Desjardins only with the authorization of its board of directors or a committee consisting of persons appointed for this purpose by the latter. Consequently, such a share or fraction of a share may not be transferred into a registered retirement savings plan.

Capital régional et coopératif Desjardins may purchase a share or fraction of a share by agreement only in the cases and to the extent stipulated in a policy adopted by its board of directors and approved by the Minister of Finance.

This policy will only cover exceptional situations. Accordingly, the purchase by agreement of a share may occur, provided certain conditions are satisfied, in the following circumstances:

— the shareholder did not receive tax assistance regarding the purchase of the share;

— the shareholder has emigrated from Canada;

— the shareholder is suffering from a terminal illness;

— the shareholder has an urgent need for cash, in particular to pay an extraordinary and unforeseen expenditure necessary for his health, and the share is the sole investment available to him to satisfy this need.

For greater clarity, shares of Capital régional et coopératif Desjardins will not be included on the list of tax shelters regarding which a registration number must be obtained.

❑ Introduction of a tax credit regarding the acquisition of shares

To encourage taxpayers to participate in economic development of resource regions and the growth of cooperatives in Québec, a new non-refundable tax credit regarding the acquisition of a share or fraction of a share, referred to as “share” hereunder, of Capital régional et coopératif Desjardins will be introduced.

Accordingly, an individual, other than a broker acting in his capacity as intermediary or firm underwriter, may deduct, in calculating his tax otherwise payable, for a taxation year before taxation year 2011, an amount equal to 50% of all the amounts, up to $2 500, he paid during the year to purchase, as first acquirer, a share of Capital régional et coopératif Desjardins.

This tax credit, worth a maximum of $1 250, may be claimed by an individual residing in Québec on December 31 of a taxation year during which he acquired a share of Capital régional et coopératif Desjardins, whether such individual files his tax return according to the rules of the general tax system or those of the simplified tax system.

To claim the tax credit regarding a share acquired during a given taxation year, an individual must file, for such year, a tax return and enclose with it a copy of the prescribed form he received, regarding such share, from Capital régional et coopératif Desjardins.

However, the tax credit may not be claimed regarding the amount paid, during a taxation year, for the purchase of a share of Capital régional et coopératif Desjardins, if a request to redeem it has been made in writing within 30 days of its subscription.

In addition, if, during a given taxation year, Capital régional et coopératif Desjardins proceeds to redeem or purchase by agreement a share for which an individual has claimed the tax credit, such individual may no longer claim the tax credit regarding any share acquired during the year or during a subsequent year.

Furthermore, the tax legislation will be amended to stipulate that the tax credit relating to the acquisition of a share of Capital régional et coopératif Desjardins, may not be taken into consideration for the purposes of calculating the alternative minimum tax payable by an individual, for a given taxation year, and the additional tax established for that same year.

❑ Tax consequences of redeeming or purchasing a share by agreement

The redemption or purchase by agreement of a share of Capital régional et coopératif Desjardins may have certain tax consequences for the individual who acquired the share or for the person who inherited such share.

• Recapture of the tax credit

The tax credit relating to the acquisition of a share of Capital régional et coopératif Desjardins may be recaptured by means of a special tax if the share for which the tax credit is claimed is held for less than seven years.

More specifically, the person who acquires a share of Capital régional et coopératif Desjardins, hereunder called the “holder”, or the person who received such share by inheritance, must pay a tax regarding the redemption or purchase by agreement of a share for which the holder obtains a tax credit, if such redemption or purchase occurs less than seven years after the date of its issue.

This tax will be equal to the amount obtained according to the following formula:

$$\frac{2\,556 - A}{2\,556} \times B$$

Where:

— the letter A represents the number of days during which the share is held by the holder and, if applicable, by the person who received such share by inheritance;

— the letter B is the lesser of 50% of the amount paid by the holder to acquire the share and the price paid for its redemption or purchase by agreement.

Capital régional et coopératif Desjardins must withhold this tax on the amount payable upon the redemption or purchase by agreement of the share. It must remit the amounts thus withheld to the Minister of Revenue, on behalf of the person who requested the redemption or purchase by agreement of the share, no later than 30 days following the date of the redemption or purchase by agreement of the share.

In addition, Capital régional et coopératif Desjardins must pay the Minister of Revenue, on behalf of the person who requested the redemption or purchase by agreement of the share, any portion of the tax payable by such person that was not withheld at source upon the redemption or purchase by agreement of such share. However, it may recover from such person the amount of tax thus paid.

The following table summarizes certain effects of the redemption or purchase by agreement of a share of Capital régional et coopératif Desjardins.

TABLE 1.7

EFFECTS OF THE REDEMPTION OR PURCHASE BY AGREEMENT OF A SHARE

Reason for the redemption or purchase by agreement	Possibility of subsequent subscription by the holder	Liability for special tax
Redemption		
— after holding seven years	NO	NO
— because of disability	NO	YES
— because of death	—	YES[1]
— within 30 days of purchase	YES	NO
Purchase by agreement		
— because of lack of tax assistance	YES	NO
— because of emigration	NO	YES[2]
— because of terminal illness	NO	YES
— because of urgent need for cash	NO	YES

1. Except for shares acquired in the year of death.
2. Except for shares acquired in the year of emigration.

- **Capital gain or loss**

The tax credit regarding the acquisition of a share of Capital régional et coopératif Desjardins will not reduce the adjusted cost base of shares acquired for the purposes of determining the capital gain that may be realized following the alienation of such shares.

However, should the alineation of a share give rise to a capital loss, the loss will be reduced by the excess of the tax credit obtained regarding it over the amount of tax paid regarding the redemption or purchase by agreement of the share.

❑ Non-taxation of the income of Capital régional et coopératif Desjardins

To increase the cash available to Capital régional et coopératif Desjardins to invest in resource regions and to foster the capitalization of cooperatives, this corporation will be authorized to deduct, in calculating its taxable income, for a given taxation year, an amount not in excess of its taxable income for the year. Consequently, Capital régional et coopératif Desjardins will not have to pay any income tax to Québec.

❑ Information statement

Capital régional et coopératif Desjardins must file an information statement, using a prescribed form, regarding all the shares acquired by an individual during a given year prior to 2011, unless, during such year, at the request of the individual, it:

— either proceeded to redeem a share, other than a share received by inheritance, unless such redemption was requested within 30 days of the subscription date of the share;

— or proceeded to purchase a share by agreement, unless the reason for such purchase was that the individual had not received the tax credit regarding the share.

This information statement must be filed no later than February 28 of the year following the year during which a share of it capital stock was acquired by the individual.

❑ Consequential changes

Various consequential changes will have to be made to the existing tax legislation following the incorporation of Capital régional et coopératif Desjardins. In particular, these changes will stipulate that Capital régional et coopératif Desjardins:

— will be considered as a prescribed entity for the purposes of the rules relating to associated corporations announced by the ministère des Finances in Bulletin d'information 2000-9 on November 17, 2000 and Bulletin d'information 2000-10 on December 21, 2000;

— will not be considered an eligible corporation for the purposes of the stock savings plan;

— will not be considered an eligible corporation for the purposes of the various refundable tax credits allowed a corporation by the tax system.

2.2 Measures concerning the knowledge-based economy

2.2.1 Introduction of a refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain

Québec's biotechnology industry consists of innovative businesses whose activities have an impact, in particular, on human and animal health, agriculture, agrifood, forestry and the environment. These businesses, in concert with educational institutions and research centres, help maintain Québec's leadership position in the biotechnology field in Canada.

Many businesses and institutions concentrating on biotechnology and human health are located in the Parc scientifique et de haute technologie de Laval, making it a centre of excellence in the field of biotechnology and human health.

To encourage the growth of businesses in this sector, a new refundable tax credit will be introduced, for a period of five years beginning on January 1, 2001, to offset the costs relating to the apprenticeship period of new employees of businesses operating in biotechnology and human health.

More specifically, this tax credit will be granted regarding the increase in payroll attributable to manufacturing or commercialization employees of an eligible corporation in this field, in the Parc scientifique et de haute technologie de Laval. The rate of this new refundable tax credit will be 40%.

❑ Eligible corporation

In general, any corporation, other than an excluded corporation, that, during a calendar year, carries on a business in Québec and has an establishment there, may, under certain conditions, claim this tax credit regarding such calendar year.

More specifically, a corporation, for the taxation year in which the calendar year ends, must carry on a certified business in the eligible region.

❑ Eligible region

Essentially, the eligible region will correspond to the existing territory of the Parc scientifique et de haute technologie de Laval. This territory consists of 53 parcels of land whose cadastral description is appended. This area will form the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain (Cité).

❑ Certified business

For the purposes of this tax credit, a "certified business" means a business whose activities consist in manufacturing, in whole or in part, products relating to the biotechnology and human health sector, in particular drugs, vaccines, medical appliances and other derived products, and, incidentally, as the case may be, commercializing them, or any other business whose activities are related to these fields, and for which an eligibility certificate has been issued by Investissement Québec.

In this regard, Investissement Québec may consult "La Cité de la Biotechnologie et de la Santé humaine du Montréal métropolitain", a corporation set up to foster the development of the Cité.

❑ Determination of the tax credit

An eligible corporation may, regarding a calendar year, claim the tax credit based on an increase in its payroll attributable to its eligible employees, according to the following formula:

Amount of tax credit = 40% x (A – B)

Where:

— the letter A represents the total salaries paid by the corporation to its eligible employees for the calendar year;

— the letter B represents the reference amount for the corporation for the calendar year.

For this purpose, the salary to be considered will be the employment income of an eligible employee, excluding attendance fees of a director, a bonus, performance premium, remuneration for work done outside normal working hours, commission and taxable benefits that must be included in calculating the employment income of such employee. However, in the specific case of an eligible employee whose activities are related to commercialization, the notion of salary will include performance premiums and commissions.

The reference amount of a corporation, for a given calendar year, will be equal to all salaries paid, during the corporation's reference period, for such year, to its eligible employees. Special rules, described below, will be stipulated for calculating the reference amount in the case of associated corporations, and in cases of mergers or winding-up.

The reference period of a corporation, for a given calendar year, will correspond to the number of days of the preceding calendar year in which a certified business was carried on in Québec by the corporation. Special terms and conditions, described below, will be stipulated regarding corporations resulting from a merger and those to which certain provisions concerning winding-up are applied.

For purposes of determining the tax credit, an eligible corporation having both an establishment in the eligible region and another establishment elsewhere in Québec must calculate the increase in payroll attributable to eligible employees as if it had an establishment only in the eligible region.

This amount may not exceed the total amount of the increase in payroll attributable to its eligible employees and to eligible employees of an establishment of the corporation located in Québec who would be eligible employees had they been employees of an establishment of the eligible corporation located in the eligible region.

In addition, special rules will be stipulated to cover situations in which the activities that a person or partnership carried out in Québec, in relation to a business, decline or cease and, as a result, the activities of an eligible corporation relating to a certified business begin, or increase, in an establishment of such corporation located in the eligible region.

Accordingly, a newly constituted corporation that establishes itself in the eligible region may, regarding a calendar year, claim the tax credit according to the total increase in payroll attributable to its eligible employees, subject, in particular, to the rules relating to associated corporations and to transfers of activities from one person to another.

❑ Eligible employee

An “eligible employee” of an eligible corporation means an employee of an establishment of such corporation located in the eligible region, who is not a specified shareholder of such corporation.

Furthermore, at least 90% of the duties of such employee with the eligible corporation, must be directly devoted to manufacturing of products relating to the biotechnology and human health sector, the commercialization of such products, or to any other activity relating to this field and for which an eligibility certificate has been issued by Investissement Québec.

Accordingly, subject to the other conditions that must be satisfied, an employee who devotes at least 90% of his time to carrying out, supervising or directly supporting the manufacturing or commercialization of products relating to the biotechnology and human health sector, or to any other activity relating to this field will constitute an eligible employee for the purposes of this tax credit. For greater clarity, duties relating to general administration are not eligible.

❑ Associated corporations

To determine the amount used as a basis for calculating the tax credit of an eligible corporation which, at the end of a given calendar year, is associated with one or more other corporations, the following amounts are determined on a consolidated basis:

— all:

  – salaries paid for the given calendar year by the associated corporations, at the end of such calendar year, to their eligible employees; and

  – in the case of an associated corporation, at the end of such calendar year, which has no eligible employees, the lesser of its reference amount that would be otherwise determined, for the calendar year, or the salaries paid, for the calendar year, to employees of an establishment of the corporation located in Québec who would be eligible employees had they been employees of an establishment of the corporation located in the eligible region;

— all the reference amounts of each associated corporation, at the end of the given calendar year, that would be otherwise determined for such calendar year.

For the purposes of these rules, an associated corporation having both an establishment in an eligible region and another establishment elsewhere in Québec will be considered a separate corporation regarding each of these establishments.

In addition, associated corporations which are eligible corporations will have to distribute the amount of the increase in payroll attributable to eligible employees among themselves by filing an agreement to that effect with the MRQ. However, the amount so allocated to an eligible corporation may not exceed the amount of the increase in payroll attributable to its eligible employees.

❑ Specific terms and conditions

• Reference amount

To determine the reference amount of a corporation resulting from a merger for a given calendar year, the calculation of the reference amount described above includes any amount thus determined for each replaced corporation, for a number of days corresponding to the reference period of the corporation resulting from the merger.

A similar rule will apply, in a winding-up situation,[10] to the determination of the reference amount of a parent corporation so as to include the reference amount of its subsidiaries therein.

• Reference period

To determine the reference period of a corporation resulting from a merger, such period will include the number of days of the preceding calendar year in which a certified business was carried on in Québec by a replaced corporation.

In the case of a corporation which was a parent corporation in a winding-up,[11] the reference period will include the number of days of the preceding calendar year, not exceeding 365, during which a certified business was carried on in Québec by a subsidiary.

❑ Reduction in the amount of salaries paid to eligible employees

The total amount of salaries paid to eligible employees by an eligible corporation, or to employees of an establishment of the corporation located in Québec who would have been eligible employees had they been employees of an establishment of the corporation located in the eligible region, for a calendar year, must be reduced by the amount of any government assistance, any non-government assistance and any profit or gain, according to the usual rules.

In addition, this amount must also be reduced by the amount of salaries for which another refundable tax credit is allowed, as well as by the amount of salaries paid to an eligible employee, for a week regarding which a tax credit for on-the-job training periods was or will be allowed in relation to such employee.

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

11 *Ibid.*

❑ Other application details

If a salary expenditure for which a tax credit has been granted is refunded to the eligible corporation, the tax credit thus granted will be recaptured by means of a special tax.

In addition, this tax credit may not be applied against the instalments of an eligible corporation for income tax and the tax on capital.

To claim this tax credit, regarding a calendar year, an eligible corporation must enclose with its tax return, for its taxation year in which such calendar year ends, a form prescribed by the MRQ. A copy of the eligibility certificate issued by Investissement Québec must also be enclosed.

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

For greater clarity, this new tax credit will be taxable. However, to determine the amount, it will not be considered as an amount of assistance or as an incentive payment.

Lastly, the MRQ may consult Investissement Québec to learn whether a given employee qualifies as an eligible employee. For greater clarity, only the information needed to obtain an opinion from Investissement Québec will be forwarded by the MRQ, in order to preserve the otherwise confidential nature of the information obtain by the MRQ in the course of applying a tax law.

❑ Excluded corporation

An “excluded corporation”, regarding a calendar year, means:

— a corporation which is tax-exempt for the taxation year in which the calendar year ends;

— a Crown corporation or a wholly-controlled subsidiary of such corporation.

❑ Application date

This measure will apply regarding calendar years 2001 to 2005.

2.2.2 Designation in Laval of a site dedicated to activities in the biotechnology sector

Québec's tax legislation includes a set of measures that favour businesses that carry out scientific research and experimental development (R&D) and other forms of innovation in certain activity sectors, in particular those identified with the knowledge-based economy. Examples are the measures relating to R&D and those relating to carrying out eligible activities in certain designated sites, i.e. measures relating to information technology development centres (CDTIs), the Cité du multimédia, the Centre national des nouvelles technologies de Québec (CNNTQ), and new economy centres (CNEs).

The measures relating to CDTIs were introduced in the March 25, 1997 Budget Speech. Briefly, these measures are designed to support corporations that undertake to carry out, within designated buildings, innovative projects in the new information and communications technology field.

Such a corporation that carries out an innovative project may enjoy a five-year tax holiday regarding income tax, the tax on capital and employer contributions to HSF. It may also receive refundable tax credits for salaries paid to eligible employees as well as for the acquisition or leasing of eligible specialized equipment. Lastly, a foreign specialist employed by such a corporation may receive, for five years, an exemption from tax on his income from such employment.

The following table indicates the tax benefits that may be granted to corporations that carry out an innovative project in a CDTI.

TABLE 1.8

INFORMATION TECHNOLOGY DEVELOPMENT CENTRES
(summary of tax assistance)

	Form	Length
CORPORATIONS		
Tax holiday		
— Income tax	Exemption	5 years
— Tax on capital	Exemption	5 years
— Employer contributions to the HSF	Exemption	5 years
Refundable tax credits		
— Salary paid to an eligible employee	40% of salary (maximum: $15 000)	Until December 31 2010
— Eligible specialized equipment	40% of the capital cost or rental cost	3 years
FOREIGN SPECIALISTS		
— Tax holiday	Income tax exemption	5 years

The measures relating to CNEs were introduced in the March 9, 1999 Budget Speech. Briefly, the tax assistance specifically applicable to CNEs enables a corporation to claim a refundable tax credit regarding the salaries paid to eligible employees. Furthermore, a foreign specialist employed by such a corporation and whose duties are almost exclusively attributable to eligible activities, may receive, for five years, an exemption from tax on his income from such employment.

In addition, corporations that carry out eligible activities in a designated building of a CNE may claim either the tax assistance specifically applicable to CNEs, or that applicable to CDTIs if they carry out an innovative project in the new information and communications technology field.

Lastly, most sectors of the knowledge-based economy are activity sectors eligible for the tax assistance specifically applicable to CNEs, including the new information and communications technology sector and the biotechnology sector.

To enable corporations that carry out activities in biotechnology sector to receive additional tax assistance, a number of adjustments will be made to the existing rules.

❑ Designation of the Centre de développement des biotechnologies de Laval

Currently, the CDTI de Laval is in a building located at 440, boulevard Armand-Frappier, with authorized floor space of 9 650 square metres.

A second building, dedicated to activities in the biotechnology sector, will be designated in Laval. It will be a new building, to be built on land designated as lot 1 166 218[12] of the cadastre of Québec, Laval registration division, i.e. on the campus of the Institut national de la recherche scientifique (INRS). This new designation will result in authorized floor space of 9 300 square metres.

The building will be designated as the Centre de développement des biotechnologies de Laval, but will be considered as a CDTI for the purposes of the tax measures.

❑ Eligible activity sector of the Centre de développement des biotechnologies de Laval

The biotechnology sector, which includes human health, in particular, will be the only eligible activity sector for the purposes of the tax assistance regarding the Centre de développement des biotechnologies de Laval.

12 This lot is parcel no. 4 of the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain.

Accordingly, a corporation that carries out an innovative project in the biotechnology sector in the Centre de développement des biotechnologies de Laval may obtain an eligibility certificate with regard to the carrying out of the project and thus may, if it satisfies the other applicable criteria, benefit from advantageous tax measures regarding the carrying out of an innovative project in a CDTI.

For greater clarity, a corporation that carries out eligible activities in the biotechnology sector in the Centre de développement des biotechnologies de Laval, other than in the course of carrying out an innovative project, may claim the tax assistance specifically applicable to CNEs.

❑ Application date and transition rules

The designation of the Centre de développement des biotechnologies de Laval, like the designation of CDTIs, requires the implementation of transitional rules.

There will be two types of transitional rules. First, they will allow a corporation to enjoy tax benefits relating to CDTIs, regarding an innovative project that begins to be carried out after the day of the Budget Speech, for the period preceding entry into the Centre de développement des biotechnologies de Laval, in the event that the premises are not available. Second, they will allow, temporarily, certain innovative projects already underway on the date of this Budget Speech, or that begin after that date, to be continued in the Centre de développement des biotechnologies de Laval.

• Transitional rules relating to the non-availability of premises

Transitional rules currently allow a corporation to claim tax benefits for the period preceding entry into a CDTI when the innovative project begins outside a CDTI because premises are not available in a CDTI. These rules, which are permanent, apply to all CDTIs and are designed to avoid unduly delaying an innovative project from starting simply because a CDTI-designated building cannot immediately accommodate the corporation that carries it out. Since the Centre de développement des biotechnologies de Laval is still to be built, transitional rules will apply to it.

• Innovative project that begins to be carried out after the day of the Budget Speech

A corporation that begins to carry out an innovative project after the day of the Budget Speech and that has never carried on a business before starting the project, may claim, regarding such project, the tax benefits inherent in carrying on a business in a CDTI before the date of its entry into the Centre de développement des biotechnologies de Laval.

The corporation must first submit its project to Investissement Québec for study, for the purpose of obtaining an eligibility certificate. If Investissement Québec concurs that the project is an innovative project and is compatible with the objectives of the Centre de développement des biotechnologies de Laval, it will inform the corporation in writing of its intention to issue an eligibility certificate.

However, no certificate will be issued until the corporation has first signed a commercial lease for premises in the Centre de développement des biotechnologies de Laval. The lease must stipulate occupation of the premises as quickly as possible, taking into account the availability of premises, and the certificate will be issued on the condition that the corporation continue to carry out the innovative project in the Centre de développement des biotechnologies de Laval as soon as the premises are available.

The certificate will take effect on the date the innovative project begins to be carried out. Accordingly, the corporation will be deemed to carry out or have carried out, as the case may be, its project in the Centre de développement des biotechnologies de Laval, for the period running from the time it begins to carry out its innovative project until its actual transfer to the Centre de développement des biotechnologies de Laval, enabling it to claim the tax benefits inherent in carrying out an innovative project in a CDTI.

Moreover, for the purpose of the refundable tax credit regarding eligible specialized equipment, such equipment will be deemed to have been used in a CDTI during such transitional period, if it was and continues to be used by the corporation in the course of carrying out its innovative project.

- **Application of the transitional rules regarding the non-availability of premises**

For greater clarity, these transitional rules are permanent and apply only when the project begins to be carried out outside the Centre de développement des biotechnologies de Laval, after the day of the Budget Speech, because premises are not available in the Centre de développement des biotechnologies de Laval.

In addition, a corporation that cannot benefit from these transitional rules regarding an innovative project may still carry out its activities in the Centre de développement des biotechnologies de Laval and thus receive the tax assistance specifically applicable to a corporation that carries out eligible activities in a CNE other than in the course of carrying out an innovative project.

- **Transitional rules relating to projects in progress**

Other transitional rules, but temporary in this case, will enable certain innovative projects that are already in progress to be continued in the Centre de développement des biotechnologies de Laval.

Such rules have already existed regarding innovative projects carried out in the information and communications technology field. The rules were designed to allow corporations to adapt, for a certain period following the implementation of these measures, to this new tax assistance relating to carrying out an innovative project in a designated site.

The possibility of receiving tax assistance relating to carrying out an innovative project in the Centre de développement des biotechnologies de Laval, in the biotechnology field, is new. It is desirable, in this context, to implement temporary transitional rules regarding certain innovative projects already in progress.

More specifically, such transitional rules will recognize the eligibility of innovative projects in progress but not advanced to such a degree that they produce revenue, whether such innovative projects began to be carried out before, on or after the day of the Budget Speech. In determining whether an innovative project in progress has advanced to such a degree that it produces revenue, government and non-government assistance will not be taken into consideration.

The application details of these transitional rules will differ depending on whether the innovative project began to be carried out by a corporation for which it is the sole business, or by another person.

Accordingly, in the case where the innovative project is the sole business carried on by a corporation, these transitional rules will enable such corporation to continue carrying out its project in the Centre de développement des biotechnologies de Laval and to receive tax assistance relating to carrying out an innovative project in a CDTI.

However, if the innovative project began to be carried out by a person other than a corporation for which it is the sole business, these transitional rules will allow the project to be continued in the Centre de développement des biotechnologies de Laval by a new corporation, which may receive tax assistance relating to carrying out an innovative project in a CDTI.

- **Innovative project that begins to be carried out by a corporation for which it is the sole business**

Tax holiday

A corporation whose innovative project is the only business it carries on, at the time it submits an eligibility application to Investissement Québec, may receive the five-year tax holiday beginning on the date it begins to carry out its project, or the day following the day of the Budget Speech, if later.

More specifically, with regard to income tax, if the date the project begins to be carried out is earlier than that of the Budget Speech, the tax holiday will apply regarding income earned after the day of the Budget Speech. Accordingly, since the corporation must not have earned income before that date, other than government and non-government assistance, such a corporation that begins to carry out its project before the day of the Budget Speech will generally receive a full income tax exemption for its taxation year including that date.

Regarding the tax on capital, the tax holiday will apply for the corporation's taxation year including the day that follows the day of the Budget Speech, in proportion to the number of days of the taxation year that follow the day of the Budget Speech, compared to 365.

The exemption from employer contributions to the HSF will apply regarding the salaries paid after the day of the Budget Speech.

Refundable tax credits

A corporation whose innovative project is in progress when it submits an eligibility application to Investissement Québec may also claim a refundable tax credit on salaries until December 31, 2010.

More specifically, this tax credit will apply regarding salaries incurred after the day of the Budget Speech, or after the date the innovative project begins to be carried out, if later, and paid to eligible employees.

The tax credit regarding eligible specialized equipment will apply to equipment acquired after the day of the Budget Speech, or after the date the project begins to be carried out if later, as well as to rent paid for such equipment after the day of the Budget Speech, or after the date the project begins to be carried out, if later, provided such rent is otherwise eligible as a deduction in calculating the income of the corporation. In no case may the tax credit for specialized equipment be claimed for assets acquired after the first three years of the tax holiday. Similarly, only rent incurred during the five years of the tax holiday and relating to assets for which the lease began after the day of the Budget Speech may enable a corporation to claim the tax credit for specialized equipment.

Tax holiday for foreign specialists

For greater clarity, a foreign specialist may also receive an eligibility certificate, according to the usual criteria. No special treatment will be applied in such a case.

- **Innovative project that begins to be carried out by a person other than a corporation for which it is the sole business**

The transitional rules allowing a corporation to continue an innovative project in progress will also apply, under certain conditions, to innovative projects that begin to be carried out by a given person who has already carried on a business other than carrying out an innovative project.

First, the project must continue to be carried out by a corporation that has never carried on a business before the transfer of the project to the Centre de développement des biotechnologies de Laval. Then, such corporation must apply for the eligibility certificate, which may not take effect on a date earlier than the date of the project's transfer.

In such a case, the corporation may begin to receive the tax benefits inherent in carrying out an innovative project in the Centre de développement des biotechnologies de Laval on the date it begins to carry out the project itself. For greater clarity, in such a case, such a corporation will not be considered, simply because it continues to carry out an innovative project, to be a corporation resulting from the amalgamation of a number of corporations.

In addition, the specialized equipment transferred to it by the given person and which would have constituted eligible specialized equipment for the corporation had it acquired such equipment itself, will be deemed to have been so acquired by it as such at the time of the transfer, at the capital cost of such equipment to such corporation. However, the following conditions must be satisfied:

— the specialized equipment is acquired by the given person after the day of the Budget Speech;

— the specialized equipment is used by such given person solely in the course of carrying out the transferred innovative project.

Moreover, a foreign specialist may also receive an eligibility certificate, according to the usual criteria. No special treatment will be applied in such a case.

- **Application of transitional rules regarding projects in progress**

For greater clarity, these transitional rules are temporary and will apply even when the innovative project begins to be carried out outside the Centre de développement des biotechnologies de Laval, for a reason other than because premises are not available in the Centre de développement des biotechnologies de Laval.

In addition, these transitional rules regarding projects in progress may apply even if the corporation that carries out the innovative project does not immediately continue to carry out the innovative project in the Centre de développement des biotechnologies de Laval, because premises are not available there. In such a case, the corporation that carries out the innovative project must satisfy the required conditions to temporarily continue carrying out the innovative project outside the Centre de développement des biotechnologies de Laval, in particular, signing a commercial lease for premises there.

Lastly, a corporation unable to benefit from these transitional rules regarding an innovative project may still carry out its activities in the Centre de développement des biotechnologies de Laval and thus receive the tax assistance specifically applicable to a corporation that carries out eligible activities in a CNE, other than in the course of carrying out an innovative project.

❑ Introduction of a new tax credit for short-term rental of specialized installations

To carry on a business in the biotechnology sector, the use of certain specialized installations is generally required. In this context, a corporation that carries out an innovative project in the Centre de développement des biotechnologies de Laval may claim a refundable tax credit of 40% of the amount of eligible rental expenses relating to the short-term rental of eligible specialized installations.

More specifically, such a corporation may claim this new tax credit regarding eligible rental expenses it incurs in the course of its five-year tax holiday period.

To this end, the restriction stipulating that, briefly, a corporation that carries out an innovative project in a CDTI may not, for the first three years of its tax holiday, claim any other tax credit allowed under the tax legislation, will be eased. This general restriction, which already includes a number of exceptions, will accordingly be changed to allow a corporation that carries out an innovative project in the Centre de développement des biotechnologies de Laval to benefit fully from this tax credit.

- **Eligible specialized installation**

For the purposes of this new tax credit, the expression “eligible specialized installation” means an installation regarding which a person, hereunder called the “lessor”, has obtained an eligibility certificate from Investissement Québec to the effect that such installation is:

— either put in place by such person in the Centre de développement des biotechnologies de Laval, other than in the premises of a corporation that carries out eligible activities, and consists almost exclusively of specialized assets used in the biotechnology sector that, at the time they are installed in the Centre de développement des biotechnologies de Laval, are new and intended to be rented on a short-term basis by many persons;

— or a specialized installation of the INRS, used in the biotechnology sector and located in the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain.

For example, the expression “eligible specialized installation” will include laboratories with specialized equipment or specialized rooms.

Investissement Québec may refuse to issue an eligibility certificate to a lessor, regarding a specialized installation, if the fee schedule being considered by the lessor stipulates rental fees that, in the view of Investissement Québec, are unreasonable under the circumstances. The fee schedule the lessor submits to Investissement Québec must indicate the various rental charges that will be asked of a corporation that carries out an innovative project in the Centre de développement des biotechnologies de Laval for the use of the specialized installations, and must be supplied to such corporation by the lessor.

This fee schedule may, from time to time, be adjusted by the lessor. However, the new fee schedule must be sent to Investissement Québec which will verify whether the new fees are still reasonable and justify keeping the eligibility certificate issued regarding the specialized installations concerned in force. Should Investissement Québec revoke an eligibility certificate, the effective date of such revocation may not be earlier than the date the revocation is served on the lessor.

- **Eligible rental expenses**

For the purposes of this new tax credit, the expression “eligible rental expenses” means the rental expenses attributable to the rental of the eligible specialized installations, including the expenses attributable to goods consumed in the course of such utilization and which are indispensable thereto. However, such rental expenses will not include services attributable to an operator, a technician or any other person whose services may be required for the utilization of the eligible specialized installations.

For greater clarity, an eligible corporation that carries out an innovative project may also claim the refundable tax credit for the eligible specialized equipment it acquires or rents, and which it installs in its premises of the Centre de développement des biotechnologies de Laval, according to the rules that currently apply to eligible corporations that carry out an innovative project in a CDTI.

- **Other application details**

The eligible rental expenses incurred by an eligible corporation must be reduced by the amount of any government assistance, any non-government assistance and any profit or gain, attributable to such expenses, according to the usual rules.

If eligible rental expenses incurred by an eligible corporation to rent eligible specialized installations and regarding which a tax credit is granted are paid back to the eligible corporation, in whole or in part, the tax credit granted regarding the amount thus repaid will be recaptured by means of a special tax.

Similarly, if an eligibility certificate is revoked by Investissement Québec, the tax credit relating to the rental expenses incurred after the effective date of such revocation, if applicable, will be recaptured by means of a special tax.

Furthermore, this tax credit may not be applied against the instalments a corporation may be required to make for income tax and the tax on capital.

In general, to claim this tax credit for a taxation year, an eligible corporation must file with the MRQ a form prescribed by the latter, a copy of the eligibility certificate issued to the lessor by Investissement Québec regarding the eligible specialized installations and a copy of the fee schedule relating to the eligible specialized installation rented during such year.

Lastly, the eligible rental expenses incurred by a corporation must have been paid at the time the tax credit is claimed from the MRQ.

- **Application date**

This refundable tax credit will apply regarding eligible rental expenses incurred after the day of the Budget Speech.

❑ Streamlining regarding the place of work of employees

Under the existing general rules, an employee of a corporation that carries out an innovative project in a CDTI must, among other conditions, perform his duties mainly within a CDTI to qualify as an eligible employee. Such a corporation can then claim a refundable tax credit of up to $15 000 a year regarding the salary paid to an eligible employee.

In view of the possibility for a corporation to claim a tax credit for the rental of eligible specialized installations from the INRS, i.e. outside the Centre de développement des biotechnologies de Laval, the eligibility criteria of employees of a corporation that carries on an innovative project in this centre will be streamlined.

More specifically, to determine whether, for a taxation year, an employee of a corporation that carries out an innovative project in the Centre de développement des biotechnologies de Laval performs his duties mainly within the centre, the time such employee spends using an eligible specialized installation rented by his employer from the INRS will be deemed to be time in which such employee performs his duties within the center.

This streamlining measure regarding the place of work of employees will apply regarding work time spent at the INRS by an employee after the day of the Budget Speech.

❑ Adaptation of the notion of foreign specialist to the biotechnology sector

As indicated above, a foreign specialist employed by a corporation that carries out an innovative project in a designated site may receive, for five years, an exemption from tax on his income from such employment. The same is true for a foreign specialist employed by a corporation that receives tax assistance regarding CNEs.

The notion of “foreign specialist”, for the purposes of the tax holiday, will be adapted to reflect the activity sector specifically applicable to the Centre de développement des biotechnologies de Laval. Accordingly, the duties of such a foreign specialist with an eligible corporation that carries out its activities in the Centre de développement des biotechnologies de Laval must consist almost exclusively in carrying out:

— training;

— research and development;

— specialized tasks regarding management in the field of innovation, commercialization, technology transfer or innovation financing;

— other activities relating to the biotechnology sector;

— a combination of the above items.

This change will apply regarding an individual who, after the day of the Budget Speech, assumes his duties, under an employment contract concluded after that day, as a foreign specialist with an eligible corporation that carries out an innovative project in the Centre de développement des biotechnologies de Laval, or with a corporation that benefits from the measures relating to CNEs, regarding activities in the biotechnology sector carried out in the Centre de développement des biotechnologies de Laval.

2.2.3 Changes to the rules concerning contributions regarding tax credits for scientific research and experimental development

Québec's tax system includes several measures designed to bolster R&D in Québec and to encourage synergy between private businesses and research entities.

The refundable tax credits granted by the government in this field are the focal points of these incentive measures. In this regard, fiscal policy has always been to reject any arrangement that grants, directly or indirectly, a "financial contribution" to a taxpayer who participates in an R&D project carried out through a research contract involving an eligible university entity, an eligible public research centre or an eligible research consortium.

Accordingly, some measures, known as contributions, have already been put in place to ensure that a taxpayer, who participates in such an R&D project, is not entitled to a refundable tax credit if he does not fully assume the financial burden of the project, for instance, when an eligible university entity with which the research contract is concluded participates in the funding of the R&D project by means of a contribution consisting of an investment, a loan, the acquisition of an ownership right or otherwise.

Over the years, the rule regarding contributions has been streamlined to allow certain transactions that do not run counter to the objectives of fiscal policy.

More specifically, one of these streamlining measures allows a person who participates in an R&D project, other than the taxpayer who initiates the R&D project, to assume the R&D expenditures relating to such project. In this case, to meet the fiscal policy objectives, the eligible expenditure for the purpose of the R&D tax credits must be reduced by the amount of such contribution the taxpayer obtained, is entitled to obtain or may reasonably expect to obtain regarding the R&D project.

❑ Introduction of a streamlining measure regarding contributions consisting of a subscription of shares

The government recently released its new science policy, *Knowledge to Change the World*. The paper specifies that the new science policy seeks to encourage the implementation of systems for the efficient transfer of the results of university research to the socio-economic realm.

Accordingly, the science policy encourages the creation of spin-offs that, working with research entities, can continue university research and commercialize it.

To adapt the tax legislation to the new science policy, the rule regarding contributions will be streamlined once again so that a research entity may be a shareholder of a corporation, without depriving the latter of its entitlement to R&D tax credits.

More specifically, the tax legislation will be amended to stipulate that an R&D project is eligible for R&D tax credits, even though an eligible university entity or an eligible public research centre, or a person who is not at arm's length with such entity or centre, as the case may be, subscribes for shares of the capital stock of the corporation that entrusts the execution of the work of such R&D project to it.

In this case, the portion of the amount paid to the corporation, as consideration for the issue of shares of its capital stock, that is reasonably attributable to the performance of the R&D project, will reduce eligible expenditures for the purposes of the R&D tax credits.

Such subscription of shares of the capital stock of the corporation that initiates the R&D project as well as the portion of the amount of such subscription reasonably attributable to the performance of the R&D project, must be disclosed in the request for an advance ruling that must be sent to the MRQ concerning the university research contract or the eligible research contract, as the case may be, relating to such R&D project.

In this regard, the corporation will be entitled to an R&D tax credit only if the MRQ confirms, in the advance ruling it hands down regarding the university research contract or the eligible research contract, as the case may be, that such R&D project complies with the fiscal policy objectives relating to R&D tax credits.

For greater clarity, a request for an advance ruling that must be sent to the MRQ concerning the university research contract or the eligible research contract, as the case may be, must include these disclosures if an eligible university entity or an eligible public research centre is a shareholder of the corporation that initiates the R&D project.

❑ Broadening of the notion of contribution regarding the "salary" R&D tax credit

To afford consistent treatment to all the situations involving a subscription of shares of the capital stock of a corporation by an eligible university entity or an eligible public research centre, the tax legislation will be amended to provide that a corporation that is not at arm's length with an eligible university entity or an eligible public research centre to which it entrusts the performance of the research work of an R&D project, is not entitled to the R&D tax credit commonly known as the "salary" tax credit, regarding such project, if such corporation has obtained, is entitled to obtain or may reasonably expect to obtain a contribution from a person who is a party to such R&D project, consisting of an investment, a loan, the acquisition of an ownership right or otherwise.

However, the same streamlining measure as described under the preceding heading will be allowed in this case. Accordingly, an R&D project will be eligible for this R&D tax credit, even if an eligible university entity or an eligible public research centre, or a person who is not at arm's length with such entity or centre, as the case may be, subscribes for shares of the capital stock of the corporation that entrusts it with the execution of the work of such R&D project.

Moreover, the portion of the amount paid, as consideration for the issue of shares of its capital stock, that is reasonably attributable to the performance of the R&D project, will reduce eligible expenditures for the purposes of the R&D tax credit.

❑ Request for advance ruling required in the case of the "salary" R&D tax credit

A corporation that initiates an R&D project for which the work is entrusted to an eligible university entity or an eligible public research centre, as the case may be, may claim an R&D tax credit commonly known as a "salary" tax credit. The base of this tax credit depends on whether or not such corporation is at arm's length with such eligible university entity or eligible public research centre.

In this case, the tax legislation will be amended to provide that, when such entity, such centre or a person with whom such entity or such centre is not at arm's length, subscribed for shares of the capital stock of the corporation that initiates such R&D project, such corporation will be required to submit a request for an advance ruling to the MRQ in which such share subscription and the portion of its amount that is reasonably attributable to the performance of the R&D project must be disclosed.

On this subject, the corporation will be entitled to an R&D tax credit only if the MRQ confirms, in the advance ruling issued in this regard, that this R&D project meets the fiscal policy objectives regarding R&D tax credits.

For greater clarity, the requirement to request an advance ruling regarding an R&D project will apply whenever an eligible university entity or an eligible public research centre is a shareholder of the corporation that initiates such project.

❑ Application date

These changes will apply to R&D expenditures incurred after the day of the Budget Speech, regarding R&D carried out after that day, in the course of a contract concluded after that day.

2.2.4 Technical changes concerning the tax holiday for foreign researchers

Under existing tax rules, a foreign researcher who is not a resident of Canada, and who comes to Québec to work as part of an R&D project, may claim an income tax exemption for a maximum of five years, consisting of a deduction in the calculation of his taxable income.

For the purposes of the tax holiday, the eligible income of a foreign researcher corresponds to all the amounts paid to him as salary during the year by his employer, which may reasonably be considered attributable to his period of research activity and which constitute, for his employer, current R&D expenditures.

The condition to the effect that the salary of the foreign researcher must constitute a current R&D expenditure for his employer may produce undesirable results, in particular when a foreign researcher receives stock options because of his job. In this case, the options granted to the foreign researcher do not constitute such an expenditure for his employer, with the result that the benefit arising from exercising these options is taxable, even though these options are attributable to the research activity period regarding which a tax holiday is granted.

In this context, the tax legislation will be amended to withdraw the condition stipulating that the salary of the foreign researcher must constitute a current R&D expenditure for his employer.

More specifically, the tax legislation will be amended to provide that the eligible income of a foreign researcher, for the purposes of the five-year tax holiday on salary granted to him, corresponds to all the amounts paid to him as salary during the year by his employer to carry out R&D activities, and that may reasonably be considered attributable to his research activity period.

For greater clarity, the requirement that the foreign researcher carry out his duties in Québec will be maintained for the purposes of this tax holiday.

This change will apply by declaration.

2.2.5 Adjustment to tax holidays for foreign specialists, experts and researchers

Many incentive measures stipulate that a person who is not a resident of Canada and comes to work in Québec to perform specific duties, may claim a tax exemption on salary for a maximum of five years, consisting of a deduction in the calculation of his taxable income.

Such is the case, in particular, for foreign experts and researchers who hold a job with an employer who carries on a business in Canada and who performs or has performed on his behalf R&D work in Québec, as well as for foreign specialists who hold a job with an employer who carries on a business in a CDTI, a CNE, the CNNTQ, the Cité du multimédia or E-Commerce Place.

To benefit from these tax exemptions on salary, the foreign employee must hold a job with the same employer, barring certain exceptions, during the five-year period of these exemptions. Consequently, as of the time a foreign employee changes employer, he loses the benefit of these tax exemptions.

These tax measures are designed to enable Québec businesses to recruit specialized employees more easily. Their purpose is not to encourage foreign employees to remain with the same employer.

In this context, these tax measures will be streamlined to allow for the mobility of such foreign employees during the five-year period of the tax exemption on salary.

More specifically, the tax legislation will be amended so that foreign specialists, experts and researchers who hold a job with an employer who carries on a business in Canada and who performs or for whom R&D work has been performed in Québec, or who hold a job with an employer who carries on a business in a CDTI, a CNE, the CNNTQ, the Cité du multimédia or E-Commerce Place, as the case may be, may change employer during the five-year period of the tax exemption on salary granted to them, provided their new employer is an eligible employer for the purposes of such tax exemption.

For greater clarity, the total length of these tax exemptions on salary will remain five years, regardless of whether or not a foreign employee has changed employer during such period.

These changes will apply regarding a foreign specialist, expert or researcher who has changed or changes employer after December 31, 2000.

2.2.6 Change to the deadline for filing the arm's length sub-contracting return

A taxpayer who, in a taxation year, carries on a business in Canada and has carried out on his behalf in Québec, R&D work by a sub-contractor with whom he is at arm's length, is entitled to a refundable tax credit whose base corresponds to 50% of the amount paid to such sub-contractor to carry out R&D work during such year.

Such a taxpayer is also entitled to an R&D tax credit, whose base corresponds to 50% of the amount he paid to have work done on his behalf in Québec, in relation to a contract for which the work relates to R&D, awarded to a sub-contractor with whom he is at arm's length, and in relation to an R&D contract or to a contract whose work relates to R&D, as the case may be, awarded by the first sub-contractor to a second sub-contractor with whom the taxpayer is at arm's length.

To be entitled to these tax credits, for a taxation year, the taxpayer must enclose with its tax return, no later than the deadline for filing its tax return for such taxation year, a form indicating the name of the sub-contractor, the total amount of the contract and the portion of such amount that was paid during the taxation year.

In addition, to be entitled to an R&D tax credit, for a taxation year, a taxpayer must file a form with the MRQ, no later than twelve months after the deadline for filing its tax return for such taxation year, indicating its expenditures that give rise to this tax credit.

In the interests of simplification and to streamline the procedure to obtain entitlement to an R&D tax credit, the tax legislation will be amended so that the deadline by which returns concerning a sub-contract must be filed matches that concerning the return for expenditures giving rise to an R&D tax credit.

More specifically, the tax legislation will be amended to stipulate that, regarding a sub-contract, the deadline by which a taxpayer must file, for a taxation year, returns regarding an R&D contract or regarding a contract whose work relates to R&D, as the case may be, awarded to a sub-contractor with whom the taxpayer is at arm's length, and in relation to an R&D contract or to a contract whose work relates to R&D, as the case may be, awarded by a first sub-contractor to a second sub-contractor with whom the taxpayer is at arm's length, be extended for one year. Accordingly, the taxpayer must file these returns no later than twelve months after the deadline for filing its tax return for such taxation year.

For greater clarity, the returns concerning a sub-contract will be incorporated into the form indicating the expenditures giving rise to the R&D tax credit.

This change will apply as of the day following the day of the Budget Speech.

2.3 Temporary broadening of accelerated depreciation to microwave station equipment

Taxpayers who carry on a business in Québec can claim a deduction for depreciation of 100% of the capital cost of certain assets used in Québec, regardless of the half-year rule and the put-in-service rules generally applicable under the tax legislation.

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

Lastly, taxpayers who acquire assets otherwise eligible for the accelerated depreciation deduction before April 1, 2005, can 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 does part of his business outside Québec during a taxation year, the amount of the supplementary deduction is divided by the proportion of his business done in Québec for such year, so that he derives full benefit from this supplementary deduction.

These measures were temporarily extended, in the March 14, 2000 Budget Speech, to assets consisting of fibre-optic cables and coaxial cables, as well as to the opto-electronic equipment and electronic equipment respectively associated with them. However, these assets must be used in designated regions, namely all the administrative regions of Québec, with the exception of the administrative regions of Montréal and Laval and, in the administrative region of Québec, with the exception of the Communauté urbaine de Québec.[13]

The purpose of this temporary extension was essentially to encourage the deployment of equipment capable of providing high-speed Internet access in regions of Québec outside the major urban centres.

In addition to fibre-optic or coaxial networks, microwave stations are sometimes used to deploy broadband networks in the regions.

To recognize this situation, the equipment described below connected to a microwave station may give rise to the 100% accelerated depreciation deduction according to the same conditions as those stipulated for manufacturing or processing equipment, provided however that such assets are used in designated regions. For greater clarity, the microwave stations themselves will not give rise to such treatment.

13 As defined by the *Act respecting the Communauté urbaine de Québec*. However, as of January 1, 2002, the reference to the Communauté urbaine de Québec will be replaced with a reference to Québec City.

These assets may also be covered by the supplementary deduction equal to 25% of the accelerated depreciation deduction claimed by a taxpayer for a taxation year, as well as, if applicable, the 20% additional deduction mentioned above.

Lastly, a separate class will have to be created for all such assets of a taxpayer giving rise to this deduction for accelerated depreciation.

More specifically, the following assets will give rise to such treatment:

— a decoder, which converts signals from digital to analogue;

— an encoder, which converts signals from analogue to digital;

— a modulator, which modulates signals in FM for analogue signals and in PS for digital signals;

— a demodulator, which demodulates the FM signal in intermediate frequencies;

— a regenerator, which detects and regenerates the initial analogue or digital signals. This regenerator is also a repeater, which includes a detector and an amplifier;

— a multiplexer, which combines the signals into a single one;

— a demultiplexer, which separates the signals;

— a DS3 or higher transmitter-receiver, i.e. an asymmetric-mode transmitter-receiver capable of a throughput of at least 44.7 megabits/second;

— an OC1 or higher transmitter-receiver, i.e. a symmetric-mode transmitter-receiver capable of a throughput of at least 51.8 megabits/second.

These changes will apply to such assets acquired after March 14, 2000 and before April 1, 2005, except:

— if they are acquired in accordance with a written undertaking contracted no later than March 14, 2000; or

— if the construction of these assets, by the taxpayer or on his behalf, was underway on March 14, 2000.

2.4 Measures concerning culture

The government bolsters the development of cultural industries with a number of refundable tax credits that sustain the activities of Québec businesses. These tax credits have made it possible to foster job creation, in particular in the film and television production sector.

In the latter regard, a joint committee released its report last summer in which it suggested undertaking a study on the feasibility of making a structural change to the refundable tax credit for Québec film and television production, so that the only parameter in calculating this tax credit is labour expenditures, without the calculation of a cap on production expenses.

The ministère des Finances, working with the ministère de la Culture et des Communications and the Société de développement des entreprises culturelles (SODEC), is continuing to study this matter.

To maintain tax assistance for businesses operating in the cultural field and ensure compliance with the objectives of the tax credits allowed in this regard, adjustments will be made to the tax credit for Québec film and television production, to the tax credit for film production services, to the tax credit for musical productions and to the tax credit for book publishing.

2.4.1 Refundable tax credit for Québec film and television production

The refundable tax credit for Québec film or television production covers labour expenditures incurred by a corporation that produces a Québec film, as this expression is understood in the *Regulation respecting the recognition of a film as a Québec film*.

This tax credit generally corresponds to 33 ⅓% of eligible labour expenditures incurred to produce the film. Moreover, the labour expenditures giving rise to this tax credit may not exceed 45% of the production expenses of the film, so that the tax assistance may not exceed 15% of such expenses.

However, under the application of this tax credit, additional assistance may be allowed regarding labour expenditures relating to the production of certain French-language feature films, certain documentaries and certain productions including computer animation or special effects, with the result that the tax assistance may reach 20.25% of the film's production costs.

Moreover, additional assistance is also granted when the film is produced outside the Montréal region, to encourage the production of films and television shows that better reflect the many regional realities of Québec, and to help producers established outside the Montréal region. In this case, the tax assistance may reach 25% of the film's production costs.

In all cases, this tax credit may not exceed $2.5 million per film.

❑ Clarification concerning live broadcasts

On December 20, 1995, the government announced[14] that the tax credit for Québec film and television production would be broadened to variety and magazine-type television broadcasts.

These shows sometimes constitute productions showing activities in real time. However, at the time, no announcement was made to specify that the *Regulation respecting the recognition of a film as a Québec film* would be amended to eliminate from the list of ineligible productions, variety and magazine-type television broadcasts that present an activity in real time.

On June 29, 2000, the government announced[15] that the *Regulation respecting the recognition of a film as a Québec film* would be amended to eliminate from the list of ineligible productions, variety broadcasts that present an activity in real time, for live or delayed broadcast, with or without modification during editing, if they otherwise satisfy the specific eligibility criteria of this type of broadcast.

In practice, since the announcement on December 20, 1995, SODEC has recognized as a Québec film, for the purposes of the tax credit for Québec film and television production, productions that present activities in real time.

In this context, to avoid penalizing one category of production in relation to another, the *Regulation respecting the recognition of a film as a Québec film* will be amended to eliminate from the list of ineligible productions, shows and films that present an activity in real time, for live or delayed broadcast, with or without modification during editing, with the exception, however, of gala, awards or parade television productions.

Accordingly, a film or television production, that is otherwise eligible for recognition as a Québec film, will not be ineligible simply because it shows an activity in real time, subject to the exception mentioned above.

This change will apply regarding a Québec film or television production for which the main photography or recording work began after December 20, 1995.

❑ Clarification concerning *droits de suite*

For the purposes of the tax credit for Québec film and television production, eligible labour expenditures, for a taxation year of an eligible corporation, include wages or salaries as well as the portion of remuneration, other than a wage or salary, incurred by the corporation, in the year, regarding the production of a Québec film.

14 Ministère des Finances du Québec, Bulletin d'information 95-7.

15 Ministère des Finances du Québec, Bulletin d'information 2000-4.

In this regard, remuneration, including a wage or salary, does not include remuneration based on the profits or receipts from the use of a film.

According to the prevailing practices in this industry, the remuneration paid to some actors depends in particular on the territory forecast by the producer for the distribution or broadcast of the film. In this case, the remuneration paid to the actor generally consists of a basic amount, called a "fee", enabling the film to be shown within the country of origin, and an additional amount, called "droits de suite", allowing the film to be shown in other regions.

Essentially, the actor's remuneration is based on the principle that the cost of his performance during the shooting is higher if such performance is intended for a larger audience, in terms of territory. Accordingly, such *droits de suite* are an integral part of the remuneration and do not depend on data based on future profits or receipts.

In this context, for the purposes of the tax credit for Québec film and television production, the tax legislation will be amended to specify that remuneration, including a wage or salary, incurred in a taxation year by an eligible corporation, is not based on the profits or receipts from the use of a Québec film, when such remuneration is calculated in particular on the basis of the projected territory for the distribution or broadcast of such film, when it is incurred in full in relation to the stages of the production of such film from the screenplay to postproduction, and when it is not subject to any reimbursement if the film is not used according to the initial forecasts.

This change will apply by declaration.

❑ End of the moratorium concerning animation productions

The March 25, 1997 Budget Speech tightened the definition of eligible labour expenditures for the purposes of the refundable tax credit for Québec film and television production regarding amounts paid under a sub-contract, to allow only the remuneration paid to a sub-contractor corporation with an establishment in Québec.

However, a three-year moratorium was implemented regarding animation productions and was extended for one year in the March 14, 2000 Budget Speech, so that the tightened definition applies only to animation productions for which the main photography or recording work began after March 25, 2001.

This moratorium is not extended again. For the purposes of the tightened definition of labour expenditures, SODEC will be responsible for determining the date when the main photography or recording work of an animation production begins.

For greater clarity, this tightened definition will apply regarding each episode of an animation series, for which the main photography or recording work begins after March 25, 2001.

❑ New prescribed amount of government or non-government assistance

For the purposes of the tax credit for Québec film and television production, the production costs as well as eligible labour expenditures of a Québec film must be reduced by the amount of any government or non-government assistance that the corporation received, is entitled to receive or can reasonably expect to receive regarding them, excluding certain prescribed amounts.

On June 30, 1999,[16] the government announced an improvement to this tax credit that increased it regarding regional film or television productions.

In the same vein, on February 1, 2000, the Minister responsible for the Capitale nationale region announced that $150 000 would be taken from the Fonds de diversification de l'économie de la Capitale to support the start-up of film or television productions in Québec's capital region.

In this context, the tax legislation will be amended so that an amount paid by the Fonds de diversification de l'économie de la Capitale constitutes a prescribed amount of assistance for the purposes of the tax credit for Québec film and television production. Accordingly, an amount paid by this fund will not reduce the production costs or eligible labour expenditures of a Québec film.

This change will apply with respect to an amount paid by this fund after January 31, 2000.

❑ Adjustment to the improvement concerning regional film or television productions

Currently, to encourage film and television production outside the Montréal region, the rates of the tax credit for Québec film and television production are increased for a regional production.

More specifically, these higher rates apply regarding eligible labour expenditures incurred for services provided in Québec, outside the Montréal region, in relation to an eligible production.

16 Ministère des Finances du Québec, Bulletin d'information 99-1.

For the purposes of this enhancement, the expression “Montréal region” designates the territory consisting of the following administrative regions or portions of administrative regions:

— Montréal (region 06);

— Laval (region 13);

— Montérégie (region 16);

— Lanaudière (region 14), excluding the Matawinie and Autray RCMs;

— Laurentides (region 15), excluding the Les Laurentides and Antoine-Labelle RCMs.

Defining the Montréal region on the basis of administrative regions does not take into account the distance between Montréal and a given outlying region. Accordingly, two given cities, both located the same distance from downtown Montréal, might not receive the same qualification for the purpose of the improvement concerning regional film or television productions, simply because of administrative boundaries.

To correct this situation and reflect the actual situation in the collective agreements that cover workers in this industry, the tax legislation will be amended to introduce a new definition of the Montréal region, based on the distance separating a region from the Montréal region.

More specifically, the Montréal region for the purpose of the improvement concerning regional film or television productions, will henceforth mean the region included within less than 25 kilometres, by road, from any point on the circle with a radius of 25 kilometres and its centre at Papineau metro station.

This change will apply regarding labour expenditures otherwise eligible for this tax credit, incurred after the day of the Budget Speech.

2.4.2 Refundable tax credit for film production services

The refundable tax credit for film production services encourages foreign producers to choose Québec as a shooting location, by allowing them tax assistance equal to 11% of their eligible labour expenditures.

In this regard, an eligible labour expenditure includes the wage or salary paid to an eligible employee as well as the remuneration paid to an eligible individual who supplied services, in Québec, in relation to an eligible production.

❑ Adjustment to the notions of eligible employee and eligible individual

Under the existing rules applicable to this tax credit, the expressions “eligible employee” and “eligible individual” mean a person who resided in Québec at the end of the calendar year preceding the one during which the main photography or recording work of the eligible production began.

In this type of production, the delivery of services, in Québec, can occur only at the postproduction stage. Accordingly, a considerable amount of time may elapse between the start of the main photography or recording work of the eligible production and the time when certain services are supplied.

Because of this long lapse of time, it may be difficult, for the qualification of eligible employees and eligible individuals, to apply the condition to the effect that such persons must reside in Québec at the end of the calendar year preceding the one during which the main photography or recording work of the eligible production began.

To make it easier to apply this condition, the tax legislation will be amended to provide that a person who resided in Québec at the end of the calendar year preceding the one during which he supplied services in relation to an eligible production, qualifies as an eligible employee or eligible individual, as the case may be.

This change will apply regarding labour expenditures otherwise eligible for this tax credit, incurred after the day of the Budget Speech.

❑ Clarification concerning *droits de suite*

Like the clarification made in this Budget Speech regarding eligible labour expenditures for the purposes of the tax credit for Québec film and television production, the tax legislation will be amended to specify that, for the purposes of the tax credit for film production services, remuneration, including a wage or salary, incurred in a taxation year by an eligible corporation, is not based on profits or receipts from the use of an eligible production, when such remuneration is calculated, in particular, on the basis of the forecast territory for the distribution or broadcast of such eligible production, when it is incurred in full in relation to the stages of the production of such eligible production from the screenplay to postproduction, and when it is not subject to any reimbursement if the use of the eligible production does not meet the initial forecasts.

This change will apply by declaration.

❑ Technical changes

On June 29, 2000, the government announced[17] a number of changes affecting the rules applicable to the tax credit for Québec film and television production as well as the certification criteria of a Québec film under the *Regulation respecting the recognition of a film as a Québec film*.

Since the tax credit for film production services is similar in many respects to the tax credit for Québec film and television production, three concordance changes will be made to it to reflect the changes announced on June 29, 2000.

- **Replacement of the notion of "final screenplay"**

The notion of "final screenplay" will be replaced by that of screenplay. Accordingly, the tax legislation will be amended to stipulate that a corporation's labour expenditure, for a taxation year, includes that paid at each stage of the production of a good that is an eligible production, from that of the screenplay to that of postproduction.

- **Clarification concerning the treatment of amounts receive in relation to a labour expenditure**

The legislation will be amended to stipulate that any amount that a corporation received, is entitled to receive or can reasonably expect to receive, and which is attributable to a labour expenditure of the corporation, for a taxation year, will reduce the amount of such expenditure for the purposes of calculating the labour expenditure of the corporation, for such year.

- **Identification of labour expenditures giving rise to an increase for special effects and computer animation**

The certification SODEC currently issues regarding an eligible production identifies, on an overall budget basis, the amount of labour expenditure eligible for the increase for special effects and computer animation.

Henceforth, SODEC will issue a certificate identifying, by budget item, the labour expenditure giving rise to this increase.

- **Application date**

These changes will apply regarding a production for which a certification application is submitted to SODEC after the day of the Budget Speech.

17 Ministère des Finances du Québec, Bulletin d'information 2000-4.

2.4.3 Refundable tax credit for musical productions

The refundable tax credit for musical productions was introduced to support the activities of businesses operating in show business. Briefly, an eligible corporation can, under certain conditions, claim a refundable tax credit equal to 33 ⅓% of the labour expenditures it incurs for the purposes of producing an eligible production.

The labour expenditures that give rise to this tax credit may not exceed 45% of the production expenses of the production, so that the tax assistance may not exceed 15% of such expenses. In addition, the tax credit allowed for an eligible production may not exceed $300 000.

For the purposes of the tax credit for musical productions, eligible labour expenditures, for a taxation year of an eligible corporation, include wages or salaries as well as the portion of remuneration, other than a wage or a salary, incurred by the corporation, in the year, and directly attributable to the production of the eligible production, for the production period extending from the pre-production of the show to the end of the third year following the first public performance of the show.

In this regard, remuneration, including a wage or salary, does not include remuneration based on the profits or receipts from the performance of the production.

According to the prevailing practices in show business, the remuneration paid to certain performing artists, generally members of the Union des artistes or of the Guilde des musiciens du Québec, corresponds to the minimum union fee, to which is added a supplementary fee calculated on the basis of the production's net operating revenue.

Accordingly, the exclusion of remuneration based on profits or the receipts from the performance of the production from eligible labour expenditures can substantially reduce the amount of the tax credit for musical productions, since the remuneration paid to performing artists accounts for a large proportion of the labour expenditures of a production.

In this context, to better reflect the actual situation in show business, the tax legislation will be amended so that remuneration, including a wage or salary, paid to a singer or a musician, which is based on the profits or receipts from the performance of the production for the production period extending from the pre-production of the show to the end of the third year following the first public performance of the show, is considered an eligible labour expenditure if it is directly attributable to the production of the eligible production, during such period.

This change will apply regarding labour expenditures otherwise eligible for this tax credit, incurred after March 9, 1999.

2.4.4 Refundable tax credit for book publishing

The refundable tax credit for book publishing was introduced to enable Québec publishers to penetrate foreign markets for Québec productions, produce major publishing projects and develop the translation market.

This tax credit covers the labour expenditures attributable to the preparation and printing of an eligible book or an eligible group of books. In general, an eligible corporation may, under certain conditions, benefit from a tax credit providing assistance ranging between 10% and 20% of the total preparation and printing expenses of an eligible book or a book that is part of an eligible group of books.

To be eligible, a book, in particular, must be the work of a Québec author, and a certain percentage of the preparation and printing expenses must be paid to Quebecers or to corporations with an establishment in Québec.

❑ Reduction in the minimum number of pages of a children's book

Currently, a children's book can give rise to the tax credit for book publishing provided SODEC has issued a certificate regarding it or regarding the eligible group of books of which it is a part, to the effect that the book satisfies certain criteria, including having at least sixteen printed pages.

This restriction has proven to be a disadvantage for books intended for young children since they frequently have fewer than sixteen pages, especially if they are printed on stiff-covered or plasticized pages.

In this context, the certification criteria for a children's book will be changed retroactively so that this type of book is eligible, for the purposes of the tax credit for book publishing, if it has at least eight printed pages, with the exception of a children's book that is a comic book, which must have at least sixteen printed pages.

This change will apply regarding certificates issued by SODEC after the day of the Budget Speech.

❑ Book written by a team of writers

To be eligible for the tax credit for book publishing, a book, in particular, must be the work of a Québec author or, if it is written by more than one author, at least 50% of them must be Québec authors, excluding any authors who simply illustrate the text of the book.

In this regard, the eligible labour expenditures attributable to the preparation of an eligible book or a book that is part of a eligible group of books, include the non-refundable advances paid to a Québec author. The expression Québec author means a person who resided in Québec at the end of the calendar year preceding the one during which the printing work for the book began, or a person who resided in Québec, before the publishing work started, for a minimum of five consecutive years.

Moreover, for the purposes of this tax credit, the amounts paid for the preparation and printing of a book or books of an eligible group of books, as the case may be, must be paid mostly to Quebecers or to corporations with an establishment in Québec.

- **Adjustments concerning the notion of Québec author**

In general, the author or authors are those identified as such in the book. However, some types of books, such as school books, how-to manuals, dictionaries or encyclopedias, may be the result of a joint effort by a team of writers headed by one or more persons, which causes problems for the administration of the notion of Québec author. When there are many contributors, it is difficult to determine who is the author of a book.

To facilitate the administration of the tax credit for book publishing, the notion of a Québec author will be changed. More specifically, the certification criteria for a book as well as the tax legislation will be changed to provide that the person or persons who head the writing of a book written by team of contributors, are likened to the authors of such book. Accordingly, these persons will have to qualify as Québec authors.

These changes will apply, first, regarding the certificates issued by SODEC after the day of the Budget Speech and, second, regarding the labour expenditures otherwise eligible for this tax credit, incurred after that day.

For greater clarity, concerning the change to the certification criteria of a book, this change will not apply to a book for which SODEC has issued an advance ruling no later than the day of the Budget Speech.

- **Adjustment concerning the percentage of eligible expenditures that must be paid to Quebecers or to corporations with an establishment in Québec**

For a book to be eligible for the tax credit for book publishing, at least 75% of the amounts paid for its preparation and printing, other than the non-refundable advances paid to Québec authors, must be paid to persons who resided in Québec at the end of the calendar year preceding the one during which the printing work began, or to corporations that have an establishment in Québec during such year. However, this percentage may be lower in the case of printing expenses, if it is shown that the printing technology used for the book is not offered by a corporation with an establishment in Québec.

In the case of an eligible group of books, the certification criterion relating to the percentage of amounts that must be paid to Quebecers, or to corporations that have an establishment in Québec, regarding preparatory and printing expenses, applies to all the preparatory and printing expenses paid for all the books of the group. However, in such a case, none of the books of the group must require a printing technology that is not offered by a corporation with an establishment in Québec.

In view of the change made to the notion of a Québec author, a change will be made to the criterion relating to the percentage of expenses that must be paid to Quebecers, or to corporations that have an establishment in Québec, when a book is the result of a collaborative effort by a team of writers headed by one or more persons.

More specifically, this certification criterion will be changed so that the remuneration paid to the person or persons heading the team of writers is treated the same way as non-refundable advances paid to Québec authors and is not included in calculating the percentage of amounts that must be paid to Quebecers, or to corporations that have an establishment in Québec, for the preparation and printing of the book or books of an eligible group of books, as the case may be.

This change will apply regarding certificates issued by SODEC after the day of the Budget Speech.

For greater clarity, this change will not apply to a book or an eligible group of books regarding which SODEC has issued an advance ruling no later than the day of the Budget Speech.

❑ Adjustments concerning the certification criteria of an eligible group of books

It can happen, in some cases, that the preparation and printing expenses paid regarding one of the books of an eligible group of books are very high compared to such expenses paid for the other books of the group.

To prevent such a situation from distorting the certification criterion based on the percentage of preparation and printing expenses that must be paid to Quebecers, or to corporations that have an establishment in Québec, a change will be made to the certification criteria of an eligible group of books, so that the book whose preparation and printing expenses are disproportionate compared to such expenses paid for the other books of the group, is excluded from the eligible group of books. Accordingly, SODEC will issue a separate certificate for such book.

Moreover, the existing certification criteria for an eligible group of books are such that none of the books of the group may be jointly published. However, certain books may be jointly published by Québec publishers, each of whom is entitled to the tax credit for book publishing regarding their respective share of the publishing of such books.

To allow such books jointly published by Québec publishers to benefit henceforth from a group certification, and thus avoid the need for separate certificates for each book, the certification criteria of an eligible group of books will be changed so that books published jointly by the same joint publishers, which are corporations otherwise eligible for the tax credit for book publishing, may be included in an eligible group of books consisting solely of such books published jointly by the same eligible corporations.

These changes will apply regarding certificates issued by SODEC after the day of the Budget Speech.

For greater clarity, these changes will not apply to an eligible group of books regarding which SODEC has issued an advance ruling no later than the day of the Budget Speech.

❑ Adjustment concerning eligible labour expenditures regarding an amount paid to a holder of rights of a Québec author

For the purposes of the tax credit for book publishing, eligible labour expenditures, for a taxation year, relating to the publishing of an eligible book or a book that is part of an eligible group of books, include, in particular, non-refundable advances, provided they are reasonable in the circumstances, directly attributable to the preparation of the book and paid to Québec authors or to holders of the rights of a Québec author.

However, a non-refundable advance may be paid to a holder of rights of a Québec author to acquire rights to existing material. To prevent this situation from giving rise to the tax credit for book publishing, the tax legislation will be amended so that non-refundable advances, for the determination of labour expenditures eligible for this tax credit, exclude any amount paid to acquire rights to existing material.

This change will apply regarding labour expenditures otherwise eligible for this tax credit, incurred after the day of the Budget Speech.

2.5 Change to the terms and conditions governing the interaction of the system of the tax on capital applicable to financial institutions and that applicable to other corporations

A corporation that has 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 accordance with generally accepted accounting principles.

The rate applicable to paid-up capital and the method of calculating the latter are different depending on whether the corporation is a financial institution or a corporation which is not a financial institution.

In general, the paid-up capital of a corporation which is not a financial institution is obtained by adding most of the amounts shown in the “shareholders' equity” and “long-term liabilities” sections of the balance sheet. To avoid double taxation, paid-up capital is reduced regarding investments made in other corporations, and a deduction is allowed for certain items. Lastly, a tax rate of 0.64% is applied to such paid-up capital.

The tax on capital applicable to financial institutions is calculated on a different basis than that of other corporations. This distinction is essentially attributable to the fact that it would not be appropriate to tax some liabilities of financial institutions, chiefly deposits. In addition, a tax rate of 1.28% is applied to their paid-up capital.

In view of the significant differences that exist in terms of the base and the tax rate between the system of the tax on capital applicable to financial institutions and that applicable to other corporations, the terms and conditions governing their interaction must be harmonious and effective.

Under existing rules, the fact that a specific investment can give rise to a reduction for investment for a corporation that is not a financial institution, is not related to the fact that the financial institution must include the corresponding debt in calculating its paid-up capital.

In this context, some types of investment made in a financial institution by a corporation that is not a financial institution may allow the latter corporation to claim a reduction for investment, while the financial institution need not include this debt in calculating its paid-up capital.

Investments in bonds, as well as loans and advances, with the exception of loans and advances with a corporation authorized to take deposits of money, may allow a corporation that is not a financial institution to claim a reduction for investment, even if they need not be included in the paid-up caital of the financial institution because they do not form part of its long-term liabilities.

Moreover, because of the existence of different rates of the tax on capital, there is an incentive to transfer a financial institution’s liability for tax to a corporation that is not a financial institution. Accordingly, a financial institution may find it attractive to obtain financing that does not have to be included in calculating its paid-up capital by means of investments made by a corporation that is not a financial institution, even if such investments do not allow the latter corporation to claim a reduction for investment. This possibility of shifting the liability for tax is especially worrisome in the context of related corporations.

To ensure that the terms and conditions governing the interaction of the system of the tax on capital applicable to financial institutions and that applicable to other corporations are effective, a link must be established between the eligibility of an investment for purposes of calculating the reduction for investment a corporation that is not a financial institution may claim, and the inclusion of this debt in calculating the paid-up capital of a corporation that is a financial institution.

Accordingly, changes will be made, first, regarding investments that allow a corporation that is not a financial institution to claim a reduction for investment when the investment is made with a financial institution with which it is not related and, second, to stipulate rules specifically applicable to related corporations and aiming to limit the possibilities of shifting the liability for tax.

❑ Investments made by a corporation that is not financial institution with an unrelated financial institution

The tax legislation will be amended to limit investments that allow a corporation that is not a financial institution to claim a reduction for investment regarding investments made with an unrelated financial institution.

More specifically, the investments giving rise to a reduction for investment for a corporation that is not a financial institution, regarding investments made with an unrelated financial institution, will henceforth be limited to shares and long-term liabilities of a financial institution, which must be included in calculating the paid-up capital of the financial institution.

❑ Investments made by a corporation that is not a financial institution with a related financial institution

Changes will also be made to the tax legislation concerning investments made by a corporation that is not a financial institution with a related financial institution, both in terms of the items the financial institution must include in calculating its paid-up capital and in terms of the reduction for investment the corporation that is not a financial institution may claim.

More specifically, any debt of a loan corporation, a trust corporation or a corporation trading in securities, in favour of a corporation that is not a financial institution and to which it is related, must, in general, be added in calculating its paid-up capital.

However, an exception to this rule will apply regarding a debt contracted or assumed by such a corporation within the preceding six months or less and which is either an account payable due as consideration for the acquisition of an asset or the delivery of a service, or a tax payable regarding the acquisition of an asset or the delivery of a service if such acquisition or delivery is at the source of an account payable or would be at the source of an account payable if the consideration for such acquisition or delivery were unpaid.

Moreover, the addition of such item in calculating the paid-up capital of such a corporation will be accompanied by a rule on series of loans and repayments, similar to the one that applies to a corporation that is not a financial institution.

As a corollary of these changes concerning the items to include in calculating the paid-up capital of such financial institutions and to limit the possibilities of double taxation of capital, a corporation that is not a financial institution may continue to claim a reduction for investment regarding bonds, loans and advances, bankers' acceptances and other similar securities of a loan corporation, a trust corporation or a corporation trading in securities, to which it is related.

In addition, a corporation that is not a financial institution may henceforth claim a reduction for investment regarding “other amounts receivable” of a loan corporation, a trust corporation or a corporation trading in securities, to which it is related.

However, in the latter regard, the “other amounts receivable” that may enable a corporation that is not a financial institution to claim a reduction for investment will not include an amount receivable from a corporation for six months or less and which is either a customer account receivable in consideration for the alienation of an asset or the delivery of a service, or a tax receivable in relation to the alienation of an asset or the delivery of a service when such alienation or delivery is the source of a customer account or would be a customer account if the consideration for such alienation or delivery were unpaid.

❑ Other application details

For greater clarity, the rules relating to the short-term holding of securities will apply regarding investments made by a corporation that is not a financial institution with a financial institution. Accordingly, a corporation may not include such investments in the calculation of its reduction for investment for a taxation year unless it has held them for a continuous period of at least 120 days including the date of the end of such taxation year.

The current exceptions, for the purposes of this 120-day rule, will also apply. Consequently, shares and, in general, loans and advances, will not be covered by the rules relating to the short-term holding of securities. However, commercial paper, which is a type of loan and advance, will be covered.

Similarly, the current rules relating to series of loans and repayments will also apply to these items to determine the reduction for investment a corporation may claim.

❑ Application date

These changes will apply to taxation years of a corporation that begin after the day of the Budget Speech.

2.6 Recognition of the exercise of professional activities within a corporation or a limited liability partnership

Under the existing rules, the members of a professional order governed by the *Professional Code* generally cannot exercise their professional activities through a corporation. In addition, professionals who exercise their professional activities through a partnership are generally liable in solidarity for all the debts and obligations of such partnership.

These rules are designed essentially to protect the public.

After studying the matter with the various stakeholders concerned, the government has concluded that it is possible to ease the constraints on the exercise of a profession, while continuing to ensure that the public is protected.

Accordingly, on December 1, 2000, a bill was introduced in the National Assembly, namely Bill 169, *Loi modifiant le Code des professions et d'autres dispositions législatives concernant l'exercice des activités professionnelles au sein d'une société*.

Briefly, this bill authorizes a professional order to allow its members to exercise their professional activities within a corporation or a limited liability partnership and to determine, if applicable, the conditions, terms and restrictions according to which such activities may be exercised. The bill sets out specific rules regarding the liability of a member of an order who exercises his professional activities within a corporation, and sets out specific rules for the exercise of professional activities within a limited liability partnership.

Québec's tax system will recognize the effects of this legislation. Accordingly, if a professional order decides to allow its members to exercise their professional activities through a corporation, they may benefit from the tax system applicable to corporations.

For greater clarity, such recognition will also apply regarding the five-year tax holiday for new corporations. Accordingly, provided the eligibility conditions for this tax holiday are satisfied, in particular concerning the non-continuation of a business carried on previously, professionals who elect to carry on their business through a corporation may benefit from the five-year tax holiday for new corporations.

Lastly, in the case where members of a professional order elect to exercise their professional activities through a limited liability partnership, they will not be considered to be “limited partners” for the purposes of the *Taxation Act*, simply because they will not be personally liable for the obligations of such partnership or those of another professional arising from errors or negligence committed by the latter in the exercise of his professional activities within the limited liability partnership.

Such recognition will apply as of the date the legislation authorizing a professional order to allow its members to exercise their professional activities within a corporation or within a limited liability partnership is assented to.

2.7 Extension and improvement of the refundable tax credit for on-the-job training periods

The refundable tax credit for on-the-job training periods encourages young people to upgrade their professional qualifications and supports the efforts of businesses that help develop their skills.

Accordingly, a corporation that accepts a trainee or apprentice as part of an eligible training internship, is entitled to a refundable tax credit of 40% (20% in the case of an unincorporated business). The expenditures eligible for this tax credit include the wages the business pays to the trainees or apprentices it accepts, as well as the wages paid to the employees who supervise the training periods.

2.7.1 Extension of the application period of the tax credit

The refundable tax credit for on-the-job training periods is scheduled to end on December 31, 2001.

In view of the success of this tax credit and the resulting benefits, it will be extended for four years. Accordingly, this measure will apply to qualified training periods that begin before January 1, 2006.

2.7.2 Improvement to the rules applicable to post-secondary students

According to the existing rules, an individual who is enrolled as a full-time student in a college or university undergraduate education program offered by a recognized education institution and stipulating one or more training periods lasting a total of at least 140 hours during the program may, if all the requirements otherwise stipulated in the tax legislation are satisfied, obtain eligible trainee status.

For the purposes of calculating the amount of eligible expenditures that give rise to a refundable tax credit for an on-the-job training period, regarding an eligible training period completed by a trainee at the post-secondary level with the same employer, the current legislation limits the number of consecutive weeks of training period that may be taken into consideration by the eligible taxpayer to 20.

Moreover, the tax legislation stipulates that the individual's training period must, under the education program, be followed by a period of classroom study.

❑ Increase in the maximum number of weeks

Many post-secondary education programs, certain university programs in particular, call for training periods with the same employer that may extend over more than eight months, i.e. two academic sessions.

To prevent the limit of 20 consecutive weeks of training period with the same employer from hindering businesses that wish to contribute to the development of trainees' professional skills, and to better reflect the actual situation of post-secondary education, the maximum number of weeks that may be taken into consideration for the purposes of calculating the amount of eligible expenditures, regarding an eligible training period completed by a post-secondary level trainee with the same employer, will be raised from 20 to 32 weeks.

❑ Changes to applicable requirements

Some post-secondary education programs that otherwise satisfy all the requirements stipulated in the tax legislation for the purposes of granting eligible trainee status to participating students, stipulate that a training period be completed at the end of the academic year. In such circumstances, eligible trainee status cannot be granted to the student trainee, because the latter's training period is not followed by a return to studies as required by the current tax legislation.

To better reflect the structure of post-secondary education programs and take into consideration the fact that the training periods included in these programs are not followed by a period of classroom studies by the trainee, the requirement that an individual's training period must, under the education program, be followed by a period of classroom studies, will be eliminated.

More specifically, this requirement will be replaced by a requirement that an individual's training period must, under the education program, be followed by a formal evaluation of the training period, prepared by the person responsible for the individual's education program with the recognized educational institution.

❑ Application date

These changes will apply to a qualified training period of an eligible trainee that begins after the day of the Budget Speech.

2.7.3 Introduction of a new component: Stage Québec

The rapid advance of technical and scientific knowledge, and its spread throughout the world, demand increasingly sophisticated specialization of many Québec businesses.

To better reflect the changes in specialized needs of businesses and the corresponding adjustments they generate in post-secondary education programs, the tax legislation will be amended to introduce a new component in the refundable tax credit for on-the-job training periods. This new component, called Stage Québec, will be geared to individuals enrolled as full-time students in a graduate university education program.

The terms and conditions applicable under this new component will be the same, with the necessary adaptations, as those applicable to individuals enrolled as full-time students in a college or university undergraduate level education program.

This new component will apply regarding a qualified training period of an eligible trainee that begins after the day of the Budget Speech.

2.8 Québec Business Investment Companies

The system applicable to Québec Business Investment Companies (QBICs) is designed to enable Québec SMEs to have access to external sources of financing, to ensure 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 private small and medium-size corporations. When a QBIC makes a qualified investment, the individuals who are its shareholders can claim a deduction equal to 150% of the value of their interest in the qualified investment.

To be eligible for the purposes of this system, a QBIC's investment must be made in a qualified corporation. Briefly, a qualified corporation means a Canadian-controlled private corporation with assets of less than $25 million, operating in an eligible activity sector stipulated in the *Regulation respecting Québec Business Investment Companies*.

2.8.1 Increase in the upper limit on assets of a qualified corporation

Under existing rules, a corporation in which a QBIC invests must, at the time of the QBIC's investment, have assets of less than $25 million.

This upper limit on the assets of a qualified corporation, which was set many years ago, may, in certain cases, no longer be fully representative of the size of the corporations targeted by this plan.

Accordingly, to enable QBICs to fully play their role in raising venture capital, the upper limit on the assets of a qualified corporation will be raised to $50 million.

However, to maintain the existing attractiveness of smaller corporations with investors, the rate of the deduction regarding an investor's interest in a qualified investment made by a QBIC, in a corporation with assets of between $25 million and $50 million, will be set at 125%.

These changes will apply in relation to a qualified corporation regarding which a QBIC makes a qualified investment after the day of the Budget Speech.

2.8.2 Extension of eligible activity sectors to include the operation of a certified bookstore

The *Act respecting the development of Québec firms in the book industry* stipulates a certification mechanism for various categories of businesses operating in the book industry in Québec. Bookstores are included among the categories of businesses eligible for the certification mechanism.

Moreover, the operator of a bookstore who obtains, regarding his business, "certified bookstore" status under this legislation, may in particular benefit from a preferred purchase policy of Québec government departments, organizations and agents.

However, to enjoy the benefits of this status, the operator of a certified bookstore must also satisfy various requirements, in particular regarding the size and composition of his permanent inventory. In some situations, satisfying these requirements may freeze a large share of the permanent capital of the operating corporations, raising a problem of capital for these corporations.

To assist the financing of corporations that run a certified bookstore, the *Regulation respecting Québec Business Investment Companies* will be amended so that a corporation more than 50% of whose activities consist in carrying on a certified bookstore, at the time of receiving an investment from a QBIC, is henceforth considered as operating in an eligible activity sector for the purposes of the QBIC system.

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

2.9 Measures concerning the Cooperative Investment Plan

The Cooperative Investment Plan (CIP) is designed to bolster the growth of cooperatives by granting a tax benefit to members and workers who acquire preferred units issued by an eligible cooperative.

This tax benefit, consisting of a deduction in calculating taxable income, depends on the adjusted cost of the preferred unit acquired from the cooperative, generally established as:

— 150% of the acquisition cost in the case of a unit acquired from a small or medium-size cooperative under an investment program for workers;

— 125% of the acquisition cost in the case of a unit acquired from a small or medium-size cooperative, other than under an investment program for workers;

— 125% of the acquisition cost in the case of a unit acquired under an investment program for workers of a cooperative, other than a cooperative covered by the preceding points;

— 100% of the acquisition cost in other cases.

2.9.1 Increase in the limit applicable to the deduction regarding the acquisition of preferred units

The current tax legislation stipulates that an individual, other than a trust, who resides in Québec on December 31 of a year may, if he files his tax return according to the rules of the general tax system, deduct, in calculating his taxable income, an amount not greater than the excess of the adjusted cost of a preferred unit he acquired from an eligible cooperative during the year or during one of the five preceding years, over any amount deducted for such preceding years.

However, the deduction claimed may not, for a given taxation year, exceed 10% of the individual's total income for the year. Essentially, an individual's total income corresponds to his net income determined without including income replacement indemnities received by virtue of a law, from which must be subtracted the exemption on taxable capital gains.

To further encourage the growth of cooperatives, the limit applicable to the deduction regarding the CIP will be raised from 10% to 30% of an individual's total income.

This change will apply beginning in taxation year 2001.

2.9.2 Administrative streamlining

Under the current regulations, if a cooperative satisfies the requirements of the CIP, the Minister of Industry and Commerce issues an eligibility certificate authorizing it to issue preferred units, and such authorization is valid until the certificate is revoked.

The Minister of Industry and Commerce also issues, regarding a small or medium-size cooperative that holds a valid eligibility certificate authorizing it to issue securities under the CIP, a certificate to the effect that, for the year mentioned on the certificate, it is a small or medium-size cooperative.

Briefly, a cooperative is considered a small or medium-size cooperative if the assets or equity shown in its financial statements for its fiscal year ending in the calendar year preceding that preceding the year during which the securities are issued, less its asset reassessment surplus and less the amount of its intangible assets in excess of the expenditure made in this regard, are, in the case of the assets, less than $25 million, or, in the case of the equity, no more than $10 million.

Since virtually all eligible cooperatives that have received, for a given year, a certificate to the effect that they are small or medium-size cooperatives, receive such a certificate year after year, the regulatory provisions concerning the CIP will be amended to stipulate that, henceforth, the Minister of Industry and Commerce will issue, regarding a small or medium-size cooperative that holds a valid eligibility certificate authorizing it to issue securities under the CIP, a certificate to the effect that, as of a given year after 2000, it is a small or medium-size cooperative, and such certificate will remain valid until it is revoked.

A certificate issued by the Minister of Industry and Commerce to the effect that a cooperative was, for 2000, a small or medium-size cooperative, will be deemed to certify that the cooperative is, as of 2000, a small or medium-size cooperative and such certificate will remain valid until it is revoked.

The regulatory provisions regarding the CIP will also be amended to stipulate that the Minister of Industry and Commerce must, as of 2002, provide the Minister of Revenue, no later than February 15 of a year, with a list of eligible cooperatives holding a valid certificate to the effect that they were small or medium-size cooperatives the preceding year.

2.10 Measures concerning the financial sector

Québec's tax legislation contains several measures designed to promote the growth of the financial sector. These measures relate primarily to the conducting of international financial transactions through international financial centres (IFC) and to the establishment and management of mutual funds.

Other tax measures specifically target the development of job skills in recent graduates by offering their employers refundable tax credits respecting the wages paid to these employees.

To further promote the development of the financial sector in Québec, various changes will be made to some of these measures.

2.10.1 International financial centres

In short, an IFC is a business or part of a business established in Montréal all of whose activities pertain to qualified international financial transactions (QIFT).

The principal IFC-related tax benefits provided for in the legislation include a tax exemption and various refundable tax credits for the operator of an IFC, and a partial or full income tax exemption for employees of an IFC.

Various changes to the IFC program were announced in the March 31, 1998 Budget Speech, and a number of adjustments were subsequently made. Further adjustments will be made to the program.

❑ Broadening of employee categories eligible for the partial income tax exemption

In general, an employee of an IFC, other than a foreign specialist, who, in a taxation year, belongs to one of the employee categories provided for in the legislation may claim, for that year, a partial income tax exemption in the amount of one third of the remuneration paid to him for that employment for the year, for the period covered by the qualification certificate issued in respect of the employee by the Minister of Finance.

Briefly, the following categories of employees are eligible for the partial income tax exemption:

— employees who are part of the strategic personnel and whose duties with the IFC are devoted, in a proportion of at least 75%, to back office activities;

— employees whose duties consist, in a proportion of at least 75%, in carrying out or assisting in the carrying out of QIFTs;

— employees whose duties consist, in a proportion of at least 75%, in directing or supervising the activities of an individual who carries out QIFTs.

In addition, subject to certain conditions set out in the legislation, an employee of an IFC who does not qualify under one of the above categories but who was an employee of the IFC on March 31, 1998 may also claim the partial income tax exemption under the transitional rules aimed at preserving the privileges of employees already on the payroll when the IFC was reformed on March 31, 1998.

To better reflect the complementary nature of certain duties and acknowledge the multidisciplinary requirements of certain tasks carried out by IFC employees, the eligibility criteria for the partial income tax exemption will be simplified.

More specifically, the legislation will be amended such that, for a taxation year, any employee of an operator of an IFC, other than a foreign specialist, for whom the operator holds a qualification certificate issued by the Minister of Finance for the year in question and whose duties during the year are devoted, in a proportion of over 75%, to the operations of the IFC, may claim, for the taxation year, the partial income tax exemption applicable to IFC employees other than foreign specialists.

For greater clarity, this change will not affect the current issuing procedure for annual qualification certificates in respect of IFC employees.

This change will apply as of the 2001 taxation year.

❑ Increase in the percentage of income eligible for the partial income tax exemption

As previously mentioned, the partial income tax exemption that an IFC employee, other than a foreign specialist, may claim for a taxation year is equal to one third of the remuneration paid to him for that employment for the year, for the period covered by the qualification certificate issued in respect of the employee by the Minister of Finance.

In order to increase the attraction of the IFC program for current and future operators of an IFC, the percentage of income of an IFC employee other than a foreign specialist that qualifies for a partial income tax exemption, for a taxation year, will be raised from 33⅓% to 50%.

This change will apply as of the 2001 taxation year.

❑ Broadening of fiduciary services considered as qualified international financial transactions

Under the current legislation, fiduciary services provided for a person not resident in Canada may constitute QIFTs.

To better reflect the range of international fiduciary services provided by trust corporations, especially foreign securities custody services, changes will be made to this transaction category.

More specifically, the legislation will be amended such that fiduciary services pertaining to the qualified securities, i.e. in general, securities relating to foreign entities or traded on foreign markets, provided for a person resident in Canada may qualify as QIFTs.

This change will apply to the activities of an IFC operator carried out after the day of the Budget Speech.

❑ Broadening of qualified international financial transactions relating to letters of credit

Under the current legislation, the acceptance or issuing of letters of credit in respect of an operation or transaction relating to property or goods to which not more than one party is or includes a person resident in Canada may constitute a QIFT.

While a large part of Canadian businesses' international trade is related to property or goods, an increasing share of this trade deals with the supply of services. Consequently, the international trade of financial institutions increasingly pertains to transactions the principal object of which is the supply of services.

To account for the importance of the service sector in international trade, the legislation will be amended such that the acceptance or issuing of letters of credit in respect of an operation or transaction relating to the supply of services to which not more than one party is or includes a person resident in Canada may constitute a QIFT.

This change will apply to the activities of an IFC operator carried out after the day of the Budget Speech.

❑ Recognition of documentary collection as a qualified international financial transaction

In the area of international trade, financial institutions offer their importing and exporting business clientele a wide variety of financial tools to facilitate their international dealings. One such tool is documentary collection.

Briefly, documentary collection is an operation whereby a vendor mandates a financial institution to collect the proceeds from a sale from the purchaser, normally foreign, against certain commercial or financial documents.

In this type of operation, the financial institution acts as trustee or intermediary between an exporter (vendor) and an importer (purchaser). Its mandate consists in presenting, on behalf of the exporter, proof to the importer that a good was shipped or that a service was delivered and, in exchange, collecting the amount owed or obtaining acceptance of a bill of exchange.

To better reflect the range of international trade activities carried out by IFC operators, documentary collection will be included in the list of QIFTs.

More specifically, the legislation will be amended such that the participation of an operator of an IFC in a documentary collection transaction in respect of an operation relating to property or goods or to the supply of services to which not more than one party is or includes a person resident in Canada may constitute a QIFT.

This change will apply to operations relating to documentary collection involving the participation of an IFC operator carried out after the day of the Budget Speech.

❑ Adjustment concerning the income tax exemption and capital tax exemption for a bank corporation operating an international financial centre

Where, during a taxation year, a corporation has an establishment in Québec and an establishment in another jurisdiction, the amount of tax payable in Québec[18] is proportional to the volume of business carried on in Québec in relation to the total volume of business carried on in Québec and elsewhere. The relative proportion of business carried on in Québec is calculated using the business allocation formula. In general, this formula takes into account two elements, in equal proportions: "salaries and wages" and "gross revenue."

One of the main objectives of the tax policy relating to IFCs is to grant the operator of an IFC a full exemption in respect of income derived from the operation of the IFC.

Where a corporation operating an IFC has an establishment in Québec only, the corporation has simply to deduct the income derived from the operation of the IFC in calculating its taxable income in order to meet the objective of the tax policy relating to IFCs, i.e. full exemption in respect of income derived from the operation of an IFC.

However, where a corporation operating an IFC also has an establishment in another jurisdiction, the income tax exemption that it may claim, under the business allocation formula and if there is no adjustment, is proportional to the volume of business carried on in Québec. For example, a corporation that operates an IFC and conducts 15% of its business in Québec would be able to claim an income tax exemption in respect of only 15% of the income it derived from the operation of the IFC.

To compensate for this dilution effect of the income tax exemption granted under the IFC program, the business allocation formula applicable to corporations operating an IFC includes a correction factor for each of the two elements taken into account. Briefly, these correction factors consist in subtracting the salaries and wages attributable to IFC operations from the "salaries and wages" element, and subtracting the income attributable to IFC operations from "gross revenue." These correction factors have the impact of offsetting the dilution effect.

Although the underlying principles are the same, the business allocation formula applicable to bank corporations is different from the general business allocation formula. In addition to giving a different relative weighting to each of the two elements, "gross revenue" is replaced with "loans and deposits," which is more suited to the principal activity carried on by the banking industry, i.e. lending money.

18 The same rules apply in respect of the tax on capital payable in Québec.

As with the general business allocation formula, the business allocation formula applicable to bank corporations includes correction factors to prevent dilution of the income tax exemption granted under the IFC program. However, being incidental, these correction factors are of the same nature as the factors used in the business allocation formula applicable to bank corporations and, consequently, are also related to the lending of money. Thus, to the extent that the activities carried out by a bank corporation within its IFC business consist in lending money, the correction factors prevent dilution of the benefits associated with the IFC program.

Due to the international nature of activities carried out within an IFC, the lending of money accounts for only a small share of the activities normally carried out by a bank corporation within an IFC. Consequently, the current correction factor for "loans and deposits" under the business allocation formula has a limited impact and, in several cases, does not offset the dilution of the benefits associated with the IFC program.

To remedy this situation, the two correction factors currently used in the business allocation formula applicable to a bank corporation operating an IFC will be withdrawn, and a superallowance for the purposes of calculating the taxable income of a bank corporation operating an IFC will be introduced.

More specifically, the legislation will be amended to divide the deduction relating to IFC operations that a bank corporation operating an IFC may currently claim in calculating its taxable income for a given taxation year by the percentage of business carried on by the corporation in Québec for the given taxation year.

In addition, for the same reasons as given earlier, a superallowance will also be introduced for the purpose of calculating the paid-up capital of a bank corporation operating an IFC.

More specifically, the legislation will be amended to divide the deduction relating to the amount attributable to IFC operations that a bank corporation operating an IFC may currently claim in calculating its paid-up capital for a given taxation year by the percentage of business carried on by the corporation in Québec for the given taxation year.

These adjustments will apply to a taxation year ended after December 31, 2000.

❑ Adjustment concerning contributions to the Fonds du centre financier de Montréal

In accordance with the *Act respecting international financial centres*, the Minister of Finance may require that every holder of a qualification certificate or certificate issued under the Act pay an annual contribution. The sums collected by the Minister are paid into the Fonds du centre financier de Montréal.

The rate and terms and conditions of payment of the contribution are fixed by the *Regulation respecting the tariff of fees and the annual contribution payable under the Act respecting international financial centres* (Regulation).

Under the Regulation, the contribution payable to the Minister of Finance by the holder of an IFC qualification certificate is $10 000 for the first calendar year in which its business is recognized as an IFC and $3 000 for each subsequent calendar year.

Because there are no specific rules pertaining to continuance, an IFC that is the object of a transfer following a merger, winding-up or transfer of assets, for example, loses the benefits acquired as an IFC, and the contribution payable by the new operator of the same IFC for the calendar year in which such a reorganization occurs is $10 000 rather than $3 000.

So that such reorganizations do not cause an IFC to lose its acquired benefits, the Regulation will be amended such that the contribution payable to the Minister of Finance by the operator of an IFC for a calendar year is $3 000 rather than $10 000, where the Minister deems that the operator's business is the continuance of a business that was recognized as an IFC in a previous calendar year.

This change will apply to contributions payable after the day of the Budget Speech.

2.10.2 Improvement of the refundable tax credit relating to the training of employees specializing in international transactions

The refundable tax credit relating to the training of employees specializing in international transactions was introduced in the March 31, 1998 Budget Speech. This tax credit is equal to 40% of the qualified wages paid by the operator of an IFC to a specialized employee in respect of whom a qualification certificate has been issued by the Minister of Finance, up to $25 000 per year. The maximum eligibility period for each employee is three years.

❑ Raising of ceiling

To better reflect the pay scales in this sector of activity, the ceiling on the amount of qualified wages in respect of which a tax credit can be claimed for an eligible specialized employee will be raised from $62 500 to $75 000, calculated on an annual basis. This increase will apply to the qualified wages paid to an eligible specialized employee for a week beginning after the day of the Budget Speech.

Consequently, the maximum amount of the tax credit, for a taxation year, will be $30 000 per eligible specialized employee.

❑ Extension of the application period for the tax credit

Under the current tax legislation, the refundable tax credit may be claimed only for the qualified wages paid to specialized employees of an IFC in respect of whom a qualification certificate is issued by the Minister of Finance before January 1, 2002.

In order to continue supporting the development of employees specializing in international transactions, the application period for the tax credit is being extended by 18 months. Accordingly, IFC operators may claim the refundable tax credit relating to the training of employees specializing in international transactions for the qualified wages paid to specialized employees for whom a qualification certificate is issued by the Minister of Finance before July 1, 2003.

❑ Change in eligibility criteria for specialized employees

In order to promote the hiring of recent graduates, a qualification certificate is issued in respect of a specialized employee who holds a university degree in a discipline relevant to international financial transactions and who, at the beginning of the period covered by the first qualification certificate issued in his regard, has no more than four years of relevant experience.

In order to focus this measure more on the target group, i.e. recent graduates, the above eligibility criteria will be changed.

More specifically, these criteria will be replaced by new criteria under which, at the beginning of the period covered by the first certificate issued in respect of the specialized employee, the employee must:

— have held a university degree in a discipline relevant to international financial transactions for no more than 48 months; or

— if the employee does not have a university degree in a discipline relevant to international financial transactions, have passed the first examination leading to the title of “Chartered Financial Analyst” (CFA) no more than 48 months earlier.

This change will apply to applications for a qualification certificate submitted after the day of the Budget Speech.

2.10.3 Improvement of the refundable tax credit relating to the training of portfolio managers

The refundable tax credit relating to the training of portfolio managers was introduced in the March 31, 1998 Budget Speech. This tax credit is equal to 40% of the qualified wages paid by an eligible portfolio management corporation to a fund manager in respect of whom a qualification certificate has been issued by the Minister of Finance, up to $25 000 per year. The maximum eligibility period for each employee is three years.

❑ Raising of ceiling

As with the refundable tax credit relating to the training of employees specializing in international transactions, the ceiling on the amount of wages eligible for the refundable tax credit relating to the training of portfolio managers will be raised from $62 500 to $75 000, calculated on an annual basis. This increase will apply to the qualified wages paid to an eligible fund manager for a week beginning after the day of the Budget Speech.

Consequently, the maximum amount of the tax credit, for a taxation year, will be $30 000 per eligible fund manager.

❑ Extension of the application period for the tax credit

Under the current tax legislation, the refundable tax credit may be claimed only for the qualified wages paid to fund managers in respect of whom a qualification certificate is issued by the Minister of Finance before January 1, 2002.

In order to continue supporting the development of a new generation of portfolio managers, the application period for the tax credit is being extended by 18 months. Accordingly, a portfolio management corporation may claim the refundable tax credit relating to the training of portfolio managers for the qualified wages paid to fund managers in respect of whom a qualification certificate is issued by the Minister of Finance before July 1, 2003.

❑ Change in eligibility criteria for portfolio managers

Like the refundable tax credit relating to the training of employees specializing in international transactions, the refundable tax credit relating to the training of portfolio managers requires the issuance of a qualification certificate.

A qualification certificate is issued in respect of a portfolio manager who, at the time the first qualification certificate is issued in his regard, has no more than four years of relevant experience, and:

— holds a university degree in a relevant discipline; or

— has successfully completed the course leading to the title of "Chartered Financial Analyst" (CFA).

In order to focus this measure more on the target group, i.e. recent graduates, and to harmonize the eligibility criteria for portfolio managers with those applicable to employees specializing in international transactions, the changes announced previously in respect of the criteria for the issuance of a qualification certificate for a specialized employee will also apply to the issuance of a qualification certificate for a portfolio manager for the purposes of claiming the refundable tax credit relating to the training of portfolio managers.

This change will apply to applications for a qualification certificate submitted after the day of the Budget Speech.

2.10.4 Adjustment of the refundable tax credit for hiring junior financial analysts specializing in the securities of Québec corporations

The refundable tax credit for hiring junior financial analysts specializing in the securities of Québec corporations was introduced on June 29, 2000[19] and aims to encourage broader coverage of Québec corporations by financial analysts, while favouring the training and development of financial analysts in Québec.

Briefly, an eligible corporation that, during a taxation year, employs an eligible junior financial analyst, may claim a tax credit equal to 40% of the qualified wages paid to such financial analyst for whom the corporation holds a qualification certificate issued by the Minister of Finance, up to $30 000 per year. The maximum eligibility period for each employee is three years.

The terms and conditions of issuance of a qualification certificate for the purposes of claiming the tax credit are similar to those applicable to the refundable tax credit relating to the training of employees specializing in international transactions and the refundable tax credit relating to the training of portfolio managers.

[19] Ministère des Finances Bulletin d'information 2000-4.

Under the current rules, a qualification certificate is issued in respect of a junior analyst who, at the beginning of the period covered by the first qualification certificate issued in his regard:

— holds a university degree in a relevant discipline and has less than two years of experience in the securities analysis field; or

— if he does not hold a university degree in a relevant discipline, has passed the first examination leading to the title of "Chartered Financial Analyst" (CFA) less than 24 months earlier.

In order to harmonize the eligibility criteria for junior financial analysts specializing in the securities of Québec corporations with those for the issuance of a qualification certificate for the purposes of claiming similar tax credits, the above eligibility criteria will be changed.

More specifically, these criteria will be replaced by new criteria under which, at the beginning of the period covered by the first qualification certificate issued in respect of a junior financial analyst, the analyst must:

— have held a university degree in a discipline relevant to securities analysis for no more than 48 months; or

— if he does not hold a university degree in a discipline relevant to securities analysis, have passed the first examination leading to the title of "Chartered Financial Analyst" (CFA) no more than 48 months earlier.

This change will apply to applications for a qualification certificate submitted after the day of the Budget Speech.

3. MEASURES CONCERNING CONSUMPTION TAXES

3.1 Zero-rating of mandatary services provided by a transfer agent to a Canadian corporation not resident in Québec

As a rule, the services provided by transfer agents in Québec to Canadian corporations not resident in Québec are zero-rated under the Québec sales tax (QST) system. However, the mandatary services they provide to these corporations in relation to the transfer of shares remain taxable.

In order to avoid the shift of purchases of such services outside the province and thereby maintain the level of competitiveness of Québec transfer agents, the QST system will be changed so that the mandatary services provided by a transfer agent to a Canadian corporation not resident in Québec for the transfer of shares are also zero-rated.

This change will apply to the supply of such services for which the total consideration is due after the day of the Budget Speech and has not been paid by the day of the Budget Speech. It will also apply to the supply of such services for which part of the consideration is due after the day of the Budget Speech and has not been paid by the day of the Budget Speech, although the QST will remain payable in respect of any part of the consideration for this supply that is due or has been paid by the day of the Budget Speech.

3.2 Non-application of the QST in respect of certain transfers of used road vehicles made without consideration

To limit tax avoidance with respect to transactions relating to used road vehicles, a measure has been provided for under the QST system to determine the minimum market value of such vehicles for the purpose of calculating the tax payable on their sale.

Thus, to prevent the parties to such a transaction from declaring that the vehicle was obtained for free or for a lower price than that actually paid, this anti-avoidance measure stipulates that, in general, the amount of QST payable must be calculated on the basis of the sale price agreed upon by the parties to the transaction or the average wholesale price given in certain reference books, less $500, whichever is higher.

It is evident that certain vehicle transfers may be contemplated by this measure even though the specific circumstances in which these transfers take place do not constitute tax avoidance; for example, where a religious corporation established by a special or general law elects to continue to exist under the terms of the *Religious Corporations Act*, in which case the rights and obligations of the former corporation are transferred to the new corporation without consideration.

To ensure that this type of situation is not subject to the anti-avoidance measure, the QST system will be changed to exempt the transfer of a used road vehicle between two corporations, except for business corporations, in the case of a transfer of rights and obligations without consideration provided for by law.

This change will apply to the transfer of a used road vehicle made in the above circumstances after the day of the Budget Speech.

3.3 Introduction of a presumption regarding the qualification of the supply of movable property delivered electronically

Under the goods and services tax (GST) system, the supply of movable property delivered electronically is considered as the supply of incorporeal movable property, whereas under the QST system, it is considered as the supply of corporeal movable property, in keeping with the principles of civil law applicable in Québec.

In view of the will to harmonize the two tax systems, such a difference in the qualification of the same type of supply is not desirable, given that the supply could receive different tax treatment under each system for reasons unrelated to taxation.

Consequently, the QST system will be changed so that the supply of movable property delivered electronically is considered as the supply of incorporeal movable property.

This change will apply to the supply of movable property delivered electronically after the day of the Budget Speech.

3.4 Change to the calculation of the *ad valorem* duty on beer supplied for consumption in an establishment

Beer supplied to a retailer for consumption in an establishment operated by that retailer in Québec is subject to a 7.5% *ad valorem* duty, which is calculated primarily on the sale price paid or on the price that would have been paid if the beer had been purchased. The fiscal policy on which this calculation is based is designed to ensure that the duty payable by the retailer is established based on the regular sale price of beer, without accounting for the benefits that may be granted by breweries for promotional purposes.

Given breweries' changing promotional practices, the current legislation providing for the establishment of the *ad valorem* duty could result in an application that is not consistent with the duty's underlying fiscal policy.

To avoid erosion of the tax base, the *ad valorem* duty applicable to beer supplied for consumption in an establishment will no longer be calculated on the basis of the sale price that was paid or that would have been paid if the beer had been purchased, but rather on the basis of the price paid or the average sale price, fixed by regulation, in effect at the time the beer was purchased, whichever is higher.

The average sale price fixed by regulation will be equal to that which currently applies to beer made by a person who supplies it for consumption in his own establishment, until the ministère du Revenu du Québec (MRQ) sets new average prices, which henceforth it will do on an annual basis.

This change will apply to beer supplied to a retailer after the day of the Budget Speech, as well as to beer supplied by way of sale to a retailer no later than the day of the Budget Speech, for which the retailer, after that day, applies to the MRQ for a refund of the *ad valorem* duty.

4. OTHER FISCAL MEASURES

4.1 Extension of the credit on duties for the cost of bringing an orebody into production

The *Mining Duties Act* provides for a refundable credit on duties aimed at promoting the bringing of orebodies into production by qualified operators.

Basically, the purpose of this credit on duties is to help qualified operators who have discovered a promising orebody to proceed to the production stage by affiliating themselves with financial institution partners. The credit is equal to up to 12% of the qualified expenses incurred by an operator, for a maximum credit on duties of $3 million.

To obtain the credit on duties, a qualified operator must, among other things, receive prior approval from the Minister of Natural Resources. Under existing rules, such prior approval must be sent to a qualified operator no later than June 13, 2001.

To maintain the financial support offered to qualified operators through this refundable credit on duties, the credit will be extended. In particular, the *Mining Duties Act* will be amended by replacing the date June 13, 2001 in the definition of "prior ministerial approval" by December 31, 2005.

4.2 Disposition of taxable Québec property by a non-resident

In accordance with existing tax provisions, a non-resident who disposes of taxable Québec property[20] must generally pay, on account of tax payable by that person, an amount equal to 18% of the gross gains from the transaction. Essentially, the rate of 18% is established on the basis of the taxation rate and the capital gains inclusion rate.

In the federal Budget Speech of February 28, 2000, the Minister of Finance of Canada announced that the capital gains inclusion rate would be reduced from 75% to 66 ⅔%. This rate was subsequently reduced to 50% in the federal economic statement of October 18, 2000.

On March 14, 2000[21] and October 27, 2000,[22] it was announced that Québec's tax legislation would be harmonized with the federal measures respecting the capital gains inclusion rate.

20 Taxable Québec property includes, notably, an immovable situated in Québec, any capital property used in Québec in carrying on a business other than an insurance business and a share in a private corporation resident in Québec.

21 Budget Speech of March 14, 2000.

22 Ministère des Finances du Québec, Bulletin d'information 2000-7.

Given these changes, Québec tax provisions relating to the disposition of taxable Québec property by a non-resident will be amended to take the new capital gains inclusion rates into account.

In particular, the rate of 18% will be lowered to 15% for taxation years ending after February 27, 2000 and before October 18, 2000, and to 12% for taxation years ending after October 17, 2000.

5. FEDERAL LEGISLATION AND REGULATIONS

5.1 Offsetting of interest on tax overpayments and underpayments

In his February 16, 1999 Budget Speech, the Minister of Finance of Canada announced that a mechanism would be introduced in 2000 to allow for an offset in refund interest on overpayments of corporate tax and interest owing on unpaid corporate tax (BR 17).[23]

The Québec Budget Speech of March 9, 1999 indicated that an announcement would be made later by the ministère des Finances du Québec with regard to this measure.

In his February 28, 2000 Budget Speech, the Minister of Finance of Canada announced the introduction of a personal income tax relief measure (BR 23),[24] whereby individuals would pay tax only on the portion of refund interest in excess of arrears interest. In a subsequent news release issued on December 21, 2000,[25] the Minister of Finance of Canada stipulated that this measure would be implemented as soon as the procedural requirements had been fixed.

The Québec Budget Speech of March 14, 2000 indicated that an announcement would be made later by the ministère des Finances du Québec with regard to this measure.

❑ Corporations

Québec's tax legislation will be amended to incorporate, with adaptations based on its general principles, the federal interest offset measures in respect of overpayments and underpayments of tax by corporations.

In general, where interest owing on an underpayment of tax by a corporation is calculated for a given period and, for the same period, refund interest is calculated on an overpayment of tax by the corporation, the latter may request that the amount of the tax payments be offset against each other for the purposes of calculating the interest.

Furthermore, under the current tax provisions, the ministère du Revenu du Québec (MRQ) may withhold a refund if a corporation has not filed all of the returns and reports required of it under a tax law or an attendant regulation.

23 The reference in parentheses corresponds 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.

24 The reference in parentheses corresponds to the number of the budget resolution in the Notice of Ways and Means Motion to Amend the *Income Tax Act* tabled on February 28, 2000.

25 Department of Finance Canada news release 2000-101.

For greater accuracy, the interest offset measures may not be applied for the period during which such a refund is withheld by the MRQ due to the failure to file a return or report.

These measures will apply as of the same dates as for the purposes of federal income tax, i.e. January 1, 2000.

Applications for interest offset must be filed with the MRQ according to the same time limits as those prescribed by the federal legislation. However, in order not to penalize corporations for whom the prescribed time for filing such an application for a period prior to 1999 has expired, such corporations will have until June 30, 2001 to file their application.

❑ Individuals

Québec's tax legislation will be amended to incorporate, with adaptations based on its general principles, the interest offset measures in respect of overpayments and underpayments of tax by individuals.

In general, refund interest calculated in respect of personal income tax overpayments for a given period will be taxable only insofar as it exceeds the amount of interest owing on personal income tax underpayments calculated for the same period.

Similarly, arrears interest applied against refund interest for federal income tax purposes will also be deductible in computing taxable income for Québec income tax purposes.

Moreover, the MRQ will not be issuing an information slip indicating the amount of net refund interest to be declared as income.

These measures will be adopted only after the approval of any federal law arising from the Notice of Ways and Means Motion tabled on February 28, 2000, and news release 2000-101, taking into account technical amendments that might be made prior to the approval, and will apply on the same dates as for the purposes of federal income tax.

5.2 News releases issued by the federal Department of Finance

5.2.1 News release issued on December 21, 2000

On December 21, 2000, the Minister of Finance of Canada issued a news release[26] announcing draft amendments to the *Income Tax Act* to provide for the implementation of income tax measures announced in the February 28, 2000 Budget Speech and in the October 18, 2000 Economic Statement and Budget Update, and containing new proposals.

26 *Ibid*.

The news release was accompanied by a backgrounder setting out the principle amendments made by the draft legislation to various measures previously announced as well as new amendments proposed to the federal income tax system.

The ministère des Finances du Québec listed the measures contained in the notices of ways and means motions to amend the *Income Tax Act* tabled in the House of Commons on February 28 and October 18, 2000 that would be incorporated into Québec's tax legislation and regulations in the Additional Information accompanying the March 14, 2000 Budget Speech and in Bulletin d'information 2000-7 (October 27, 2000), respectively.

In addition to these measures, some of the legislative amendments and new proposals discussed in the backgrounder released by the Department of Finance Canada on December 21, 2000 will also be incorporated into Québec's legislation and regulations. However, these amendments and proposals will be adopted only after the approval of any federal law or the adoption of any federal regulation arising therefrom, taking into account technical amendments that might be made prior to the approval or adoption, and, as a rule, will apply on the same dates as for the purposes of federal income tax.

More specifically, Québec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the legislative amendments and proposals relating to:

- the deferral of taxation on employee stock options as regards:
  - the reporting of deferred stock options benefits by the employer;
  - the $100 000 annual vesting limit;
  - the order in which shares are considered to be disposed of;
  - the exchange of shares;
  - determination of the adjusted cost base of identical properties;
  - adjustment of the adjusted cost base;
- the expansion of the deduction for charitable donations of stock option shares, except that this expansion will apply to donations made after March 14, 2000 and before January 1, 2002;
- the stock option deduction;
- the clergy residence deduction.

5.2.2 News release issued on February 20, 2001

On February 20, 2001, the Secretary of State for International Financial Institutions, acting on behalf of the federal Minister of Finance, issued a news release[27] announcing a detailed Notice of Ways and Means Motion containing measures to amend the *Excise Tax Act*. The Notice reintroduces the measures relating to the goods and services tax (GST) tabled in the House of Commons on October 4, 2000, as well as includes a new proposal to allow for a refinement to the existing New Housing Rebate.

The decisions to harmonize or not to harmonize the QST system with the GST system have already been announced for the measures reintroduced by the above Notice of Ways and Means Motion. However, the Québec ministère des Finances has not yet made its position known on the new measure to refine the New Housing Rebate.

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

However, this amendment of the QST system will be adopted only after the approval of any federal law arising from news release 2001-017, taking into account technical amendments that might be made prior to the approval, and will apply on the same dates as for the purposes of the federal system.

27 Department of Finance Canada news release 2001-017.

6. VARIOUS MEASURES AIMED AT REDUCING THE ADMINISTRATIVE AND FINANCIAL BURDEN OF BUSINESSES

6.1 Measures concerning the Inspector General of Financial Institutions

6.1.1 Exemption from filing an annual declaration during the year of a business's registration

Under the *Act respecting the legal publicity of sole proprietorships, partnerships and legal persons*, legal persons and groups registered by the Inspector General of Financial Institutions (IGFI) before September 15 of a given year must also file with the IGFI, between September 14 and December 16 of that year, an annual declaration in order to update the information concerning them that was provided at the time of their registration and entered in the register of sole proprietorships, partnerships and legal persons (the IGFI register). A fee ranging from $32 to $79, depending on the type of business, must be paid at that time.

Henceforth, legal persons and groups registered by the IGFI before the period determined for filing an annual declaration will be exempt from the obligation to file such a declaration in the year of their registration, as is the case with other businesses.

In addition to lightening the administrative burden of the approximately 24 000 legal persons and groups registered each year, this measure will mean savings of about $1.7 million for them.

6.1.2 Elimination of the fee charged for a business's first annual declaration

In an effort to reduce the costs borne by new businesses, as of January 1, 2002, new businesses will no longer have to pay the fee charged for the first annual declaration to be filed with the IGFI.

This measure will enable nearly 80 000 businesses to save an estimated total of $4.1 million annually.

6.1.3 Reduction of certain fees payable by businesses

Businesses are required to pay various fees to the IGFI under the *Companies Act* and the *Act respecting the legal publicity of sole proprietorships, partnerships and legal persons*. Beginning on April 1, 2001, certain of these fees will be reduced by approximately 25%.

The table below shows which fees will be reduced and compares the amounts that will be payable as of April 1, 2001 with current amounts.

TABLE 1.9

FEES PAYABLE TO THE IGFI THAT ARE TARGETED BY THE REDUCTION
(in dollars)

	Current amount	Amount as of April 1, 2001
Amendment		
Legal person - Part I-A (certificate)	187.00	140.00
Legal person - Part III (supplementary letters patent – Regulation - change of corporate name)	87.00	65.00
Amalgamation		
Legal person - Part I-A (certificate)	643.00	482.00
Legal person - Part III (letters patent)	233.00	174.00
Continuation		
Legal person – Part I-A	262.00	197.00
Resumption		
For-profit legal person	410.00	308.00
Non-profit legal person	176.00	132.00
Revocation of a striking off		
For-profit legal person and mutual insurance company	212.00	159.00
Partnership	160.00	120.00
Other	107.00	80.00
Other fees		
Document certification	38.00	28.69
Attestation respecting a business	26.00	19.56
Copy or extract of a document (per page)	2.00	1.52

The reduction of the above fees will save businesses $800 000 annually.

6.1.4 Increased use of the Québec enterprise number (NEQ) by government departments and agencies

In the Budget Speech of March 25, 1997, the government announced the implementation of a single government business number, as of January 1, 1998, in order to simplify dealings between businesses and government departments and agencies.

Since then, the Québec enterprise number (NEQ) has become a reality, and its use by a number of government departments and agencies in their transactions with businesses gives them more rapid access to the information entered in the IGFI register.

The government now intends to promote increased use of the NEQ by its departments and agencies so that, beginning in 2002, most departments and agencies likely to use it in their day-to-day transactions opt to do so, thereby dispensing businesses that have a NEQ from having to provide again the information entered in the IGFI register.

6.2 Monitoring of the financial sector

During the last decade, the decompartmentalization of financial institutions and market globalization have brought about major changes in the financial sector. The principal financial institutions—banks, insurance companies, stock brokerage firms, trust companies and financial service cooperatives—now offer, in direct competition with each other, a vast array of financial products and services. Industry observers foresee a potential for other, equally significant changes in the near future.

Jurisdictions elsewhere in the world recently implemented reforms aimed at integrating their monitoring agencies to varying degrees. Such reforms are intended to improve the efficiency with which not only financial institutions, but financial markets as a whole, are monitored.

Given this context, the time has come for the government to undertake a reflection process regarding the agencies—primarily the Commission des valeurs mobilières du Québec, the IGFI and the Bureau des services financiers—that currently monitor its financial sector.

The government therefore intends to set up, in the near future, a task force mandated to make recommendations to the Minister of Finance, before the end of this year, on any changes that could be made to the monitoring structure currently in place in the financial sector. This step is intended to improve the structure's effectiveness particularly with regard to monitoring the protection of consumers of financial goods and services and reducing the administrative and regulatory burden of the financial services industry, while promoting the preservation of Québec's jurisdictions.

6.3 Easements respecting licences issued to building contractors by the Régie du bâtiment du Québec

As a rule, all contractors in the construction industry must hold a building contractor's licence issued by the Régie du bâtiment du Québec, which attests that they have the professional qualifications necessary to undertake the types of construction work they plan to carry out or have carried out.

The government intends to simplify the competency-evaluation requirements for obtaining such a licence, without affecting any of the elements necessary to ensuring public safety.

To that end, the Minister of State for Labour, Employment and Social Solidarity will soon undertake consultations with stakeholders in the construction industry and the government agencies concerned.

Moreover, the method for determining the duties and fees relating to building contractor's licences will be modified so that the licence will cost less for more than 80% of contractors. As a result, stakeholders in the construction industry will save $5 million annually.

The regulatory amendments relating to the simplification of competency-evaluation requirements and the reduction of duties and fees payable to the Régie du bâtiment du Québec will be made public in the fall of 2001.

6.4 Reduction of certain duties payable to the Régie du cinéma

As part of its mandate to supervise and control the distribution of cinematographic works in Québec, the Régie du cinéma is responsible, in particular, for monitoring distribution rights with a view to safeguarding them.

In this context, holders of a distributor's licence must, before selling, leasing, lending or exchanging video material, demonstrate before the Régie du cinéma that they hold the requisite distribution rights. To do so, they must file before the Régie the contract or documents attesting their rights. The Régie issues to holders that meet the requirements a filing certificate and an attestation of the certificate for each print of the video material to be sold, leased, lent or exchanged.

The $0.50 fee currently payable for an attestation of the filing certificate will be reduced to $0.40 beginning on April 1, 2001. As a result, holders of distributor's licences will save approximately $1.2 million annually.

7. CONTRIBUTION FOR THE SUPPORT OF COMPULSIVE GAMBLERS AND OLDER PERSONS LOSING THEIR AUTONOMY

The Société des loteries vidéo du Québec pays holders of licences to operate video-lottery sites a commission corresponding to 30% of their income from video-lottery terminals, for an amount equivalent to $325 million in 2001-2002. This commission rate largely exceeds the rates in effect elsewhere in Canada, which range between 15% and 23%.

Given the volume of such revenues, the government will reduce the commission rate from 30% to 26%, beginning on May 1, 2001. The $50 million or so thus freed up will be used in part to fund the assistance program for compulsive gamblers and in part to meet the needs of older persons losing their autonomy.

The government will therefore increase to $20 million the annual budget earmarked in the specific purpose account, administered by the ministère de la Santé et des Services sociaux, for funding the assistance program for compulsive gamblers. Of this amount, $2 million will be used to finance intensive monitoring activities by the Régie des alcools, des courses et des jeux in this area. This amount will be raised to $3 million as of 2002-2003.

An annual amount of $30 million will be paid into a new specific purpose account aimed at better meeting the needs of older persons losing their autonomy. The administration of this new account will also be assumed by the ministère de la Santé et des Services sociaux.

8. INCREASE IN HORSE-RACING PURSES MAINTAINED

As a result of competition from Ontario, the Québec government announced, on June 29, 2000,[28] that additional assistance would be granted to increase purses for horse-racing programs and special events at Québec racetracks until March 31, 2001. At the same time, it announced that public hearings would be held on the future of this industry in Québec.

Further to these hearings, held in February 2001, a report will be submitted to the government. Considering that the report will be analysed, and given the number of jobs at stake in this industry, the government will maintain the increase in purses for horse-racing programs and special events at Québec racetracks until March 31, 2002.

This measure will be funded out of the amounts earmarked in the specific purpose account called “Compte pour le financement du plan de relance de l’industrie des courses de chevaux”, that are allocated each year to the Société nationale du cheval de course for its recovery plan. Loto-Québec’s contribution will thus be increased by $12.4 million.

28 Press release of the Minister of Finance.

APPENDIX

CADASTRAL DESCRIPTION

CITÉ DE LA BIOTECHNOLOGIE ET DE LA SANTÉ HUMAINE DU MONTRÉAL MÉTROPOLITAIN

CADASTRE : QUÉBEC

REGISTRATION DIVISION : LAVAL

MUNICIPALITY : VILLE DE LAVAL

The Cité de la biotechnologie et de la santé humaine du Montréal métropolitain comprises 53 parcels of land, composed as follows:

Parcel No. 1

This parcel of land is represented by lot 1168850.

Parcel No. 2

This parcel of land is represented by a portion of lot 1165685 (a portion of boulevard des Prairies).

Parcel No. 3

This parcel of land is represented by lot 1166281.

Parcel No. 4

This parcel of land is represented by lot 1166218.

Parcel No. 5

This parcel of land is represented by lot 1169234.

Parcel No. 6

This parcel of land is represented by lot 1165667 (a portion of boulevard Cartier).

Parcel No. 7

This parcel of land is represented by lot 1169235.

Parcel No. 8

This parcel of land is represented by lot 1166185.

Parcel No. 9

This parcel of land is represented by lot 1166441.

Parcel No. 10

This parcel of land is represented by lot 1169199 (a portion of boulevard Armand-Frappier).

Parcel No. 11

This parcel of land is represented by lot 1166090.

Parcel No. 12

This parcel of land is represented by lot 1166443.

Parcel No. 13

This parcel of land is represented by lot 1165684.

Parcel No. 14

This parcel of land is represented by lot 1166445.

Parcel No. 15

This parcel of land is represented by lot 1166442.

Parcel No. 16

This parcel of land is represented by lot 1166440.

Parcel No. 17

This parcel of land is represented by lot 1166437.

Parcel No. 18

This parcel of land is represented by lot 1166438.

Parcel No.19

This parcel of land is represented by lot 1166432 (a portion of boulevard Armand-Frappier).

Parcel No. 20

This parcel of land is represented by lot 1168839.

Parcel No. 21

This parcel of land is represented by lot 1165943.

Parcel No. 22

This parcel of land is represented by lot 1166439.

Parcel No. 23

This parcel of land is represented by lot 1168842.

Parcel No. 24

This parcel of land is represented by lot 1166431.

Parcel No. 25

This parcel of land is represented by lot 1168847.

Parcel No. 26

This parcel of land is represented by lot 1165925.

Parcel No. 27

This parcel of land is represented by lot 1168837.

Parcel No. 28

This parcel of land is represented by lot 1169160 (a portion of boulevard Notre-Dame).

Parcel No. 29

This parcel of land is represented by lot 1169198 (a portion of boulevard Notre-Dame).

Parcel No. 30

This parcel of land is represented by a portion of lot 1165680 (a portion of boulevard Notre-Dame).

Parcel No. 31

This parcel of land is represented by lot 1165687.

Parcel No. 32

This parcel of land is represented by lot 1165907.

Parcel No. 33

This parcel of land is represented by a portion of lot 1165677 (a portion of boulevard Armand-Frappier).

Parcel No. 34

This parcel of land is represented by lot 1165906.

Parcel No. 35

This parcel of land is represented by lot 1918339.

Parcel No. 36

This parcel of land is represented by a portion of lot 1918340 (a portion of boulevard Daniel-Johnson).

Parcel No. 37

This parcel of land is represented by a portion of lot 1918343.

Parcel No. 38

This parcel of land is represented by lot 2171251.

Parcel No. 39

This parcel of land is represented by lot 1512577.

Parcel No. 40

This parcel of land is represented by lot 1615231.

Parcel No. 41

This parcel of land is represented by lot 2171252.

Parcel No. 42

This parcel of land is represented by lot 1169201 (a portion of boulevard Armand-Frappier).

Parcel No. 43

This parcel of land is represented by lot 1697341.

Parcel No. 44

This parcel of land is represented by lot 1697342.

Parcel No. 45

This parcel of land is represented by lot 1697347.

Parcel No. 46

This parcel of land is represented by lot 1697343.

Parcel No. 47

This parcel of land is represented by lot 1697346.

Parcel No. 48

This parcel of land is represented by lot 1918341.

Parcel No. 49

This parcel of land is represented by lot 1697344.

Parcel No. 50

This parcel of land is represented by lot 2234255.

Parcel No. 51

This parcel of land is represented by lot 2234254.

Parcel No. 52

This parcel of land is represented by lot 1918342.

Parcel No. 53

This parcel of land is represented by a portion of lot 1165708.