

2002-2003
BUDGET

Additional

Information

on the Budgetary

Measures

November 1, 2001

Additional Information on the Budgetary Measures

Section 1
Revenue Measures

Section 2
Expenditure Measures

Section 3
Financial Impact of the Fiscal and Budgetary Measures

Section 1

Revenue Measures

1.	MEASURES CONCERNING INDIVIDUALS AND BUSINESSES.....	1
1.1	Increase of \$100 per adult in the December 2001 instalment of the QST credit	1
1.2	Six-month interest-free deferral of tax instalments for the fourth quarter of 2001 for SMEs.....	3
1.3	Reduction in the number of instalments payable by small employers consisting of deductions at source and employer contributions	6
1.4	Significant reduction in the tax on capital and technical change	8
1.4.1	Rate of tax on capital cut by more than half by 2007	9
1.4.2	Gradual exemption of the first \$1 million of paid-up capital.....	10
1.4.3	Technical change	16
1.5	Broadening of eligibility for the tax holiday for small and medium-sized manufacturing enterprises in remote resource regions.....	17
1.6	Temporary improvement to various refundable tax credits granted in certain regions	21
1.6.1	Refundable tax credit for processing activities in the resource regions.....	22
1.6.2	Refundable tax credit for Gaspésie and certain maritime regions of Québec	24
1.6.3	Refundable tax credit for the Vallée de l'aluminium.....	26

1.7	Eligibility of cut stone for the refundable tax credit for resources.....	28
1.8	Adjustments to the refundable tax credit regarding E-Commerce Place.....	31
1.8.1	Increase in the rate and the maximum tax credit.....	31
1.8.2	Extension of the period of eligibility for the tax credit.....	32
1.8.3	Extension of the period of eligibility for the tax holiday for a foreign specialist.....	33
1.8.4	Reduction of available rental space.....	34
1.9	Introduction of a refundable tax credit for e-business activities carried out in certain designated sites.....	34
1.10	Extension of the eligibility period for tax assistance relating to certain designated sites.....	43
1.10.1	Tax assistance relating to the knowledge-based economy.....	43
1.10.2	Tax benefits relating to the Mirabel Zone.....	47
1.10.3	Refundable tax credit for the Cité de l'optique.....	50
1.10.4	Refundable tax credit for the Technopôle Angus.....	50
1.10.5	Refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain.....	51
1.11	Increase in total available floor space of CNEs.....	51
1.12	Adjustment to the five-year tax holidays granted to certain foreign employees.....	52
1.13	Scientific research and experimental development.....	54
1.13.1	Technical clarification regarding certain types of sub-contracts for university R&D activities.....	54
1.13.2	Designation of a new eligible public research centre.....	55

1.14	Adjustments to the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market.....	55
1.14.1	Extension of the tax credit application period.....	56
1.14.2	Introduction of a new component.....	56
1.14.3	Technical changes.....	59
1.15	Clarification concerning the territorial reach of certain tax assistance measures applicable to the financial sector 60	
1.16	Measures concerning culture.....	61
1.16.1	Refundable tax credit for Québec film and television production.....	61
1.16.2	Clarification concerning coordination of certain refundable tax credits relating to the cultural field.....	63
2.	OTHER FISCAL MEASURES.....	65
2.1	Increase in the exemptions granted for determining premiums under the prescription drug insurance plan.....	65
2.2	Extension of the deadline for filing returns in respect of self-employed earnings.....	66
2.3	Special tax in respect of investments made by Capital régional et coopératif Desjardins.....	67
2.4	Tax treatment of the Farm Income Stabilization Account.....	69
2.5	Reduction of the specific duty and tax applicable to beer sold by microbreweries.....	72
3.	NEWS RELEASES ISSUED BY THE FEDERAL DEPARTMENT OF FINANCE.....	74
3.1	News release of October 12, 2001.....	74
3.2	News release of September 18, 2001.....	74
3.3	News release of June 3, 1999.....	75
4.	COLLECTING ALL OF THE GOVERNMENT'S REVENUE.....	76

1. MEASURES CONCERNING INDIVIDUALS AND BUSINESSES

1.1 Increase of \$100 per adult in the December 2001 instalment of the QST credit

Under current fiscal legislation, two refundable Québec sales tax (QST) credit instalments must be paid during 2001. The first instalment was paid in August 2001 and, for the vast majority of the taxpayers concerned, represented half of the amount of the QST credit determined in their regard for the 2000 taxation year. The other half of this amount will be paid to them in December 2001.

However, some taxpayers may have received, in August 2001, the full QST credit to which they were entitled for the 2000 taxation year, where the amount determined in their regard did not exceed \$50.

According to the applicable tax rules, the maximum allowable amount of the tax credit that could be determined with respect to an individual for the 2000 taxation year was equal to the total of the following amounts:

- \$154, with respect to the person;
- \$154, with respect to the person's spouse, where applicable;
- \$103, where the person did not have a spouse at any time during the year and where, throughout the year, the person ordinarily lived in a self-contained domestic establishment in which no other person lived, unless that person is someone entitling the person to the tax credit respecting dependent children.

However, this maximum amount was to be reduced by 3% of every dollar of family income that exceeded \$26 000.

Moreover, where a person was receiving income security benefits at a given time during the year 2000, the amount determined was also reduced by the total of the monthly instalments of this tax credit that the person had received in advance during that year.

In August 2001, the ministère du Revenu du Québec (MRQ) sent to taxpayers who had claimed the QST credit for taxation year 2000 a notice indicating the amount of the credit determined in their regard for the year, and paid out half or, if the amount determined did not exceed \$50, all of the tax credit to which they were entitled.

☐ Increase of \$100 per adult

With a view to providing support targeted to low- and middle-income households, an increase in the amount of the tax credit determined with respect to taxpayers having claimed it for taxation year 2000, of up to \$200 per household, will be granted. Such an increase may also be granted to taxpayers who received income security benefits during the year 2000.

More specifically, where the amount determined for taxation year 2000 by the MRQ in respect of an individual exceeded zero, or would have exceeded zero in a case where the individual was an income security recipient, if the monthly instalments of the QST credit received in advance had not been applied in deduction, that individual will receive an increase in the amount of \$200 if he had a spouse at the end of 2000, or an increase of \$100 in any other case.

☐ Application details

The amount of this increase will be paid to the taxpayers concerned in December 2001.

For greater clarity, the taxpayers concerned will be deemed to have paid to the Minister of Revenue, during the month of December 2001, on account of their taxes payable for taxation year 2000, the amount of the increase determined in their regard, unless they no longer resided in Québec on December 1, 2001.

In the event that the individual having claimed the QST credit dies before December 1, 2001, the amount of the increase to which the deceased would have been entitled will be paid to the person who was the spouse of the deceased at the end of the year 2000, as long as the latter submits a request in writing in this regard to the MRQ no later than the date on which the tax return of the deceased must be filed for the year of his death. However, this requirement does not have to be met if the spouse of the deceased has submitted a claim to the MRQ to receive the first or second instalment of the tax credit determined with respect to the deceased for the year 2000.

1.2 Six-month interest-free deferral of tax instalments for the fourth quarter of 2001 for SMEs

Due to the recent events in the United States and the repercussions they will have on the liquidity of Québec corporations that are SMEs, an interest-free deferral of the instalments for October 2001 to April 2002 has already been announced.¹

In short, this deferral allows corporations whose paid-up capital shown in their financial statements for the preceding taxation year did not exceed \$15 million to pay their instalments for the month of October 2001 at the same time as the instalments for April 2002. Specific rules have been provided for as concerns corporations whose taxation year ends after September 30, 2001 and before February 1, 2002.

To better assist Québec corporations that are SMEs, an interest-free deferral of instalments for the months of November and December 2001 will also be allowed.

Modifications will also be made to measures concerning the deferral of instalments for October 2001, in order to take into account the measures concerning the deferral of instalments for November and December 2001.

□ Deferral of instalments for the months of November and December 2001 to the months of May and June 2002 respectively

Subject to the specific application measures described below relating to corporations whose taxation year ends after September 30, 2001 and before April 1, 2002, instalments of income tax, tax on capital, compensatory tax and contributions to the Québec Youth Fund (tax instalments) for the months of November and December 2001 may be paid at the same time as the instalments for May and June 2002 respectively.

Corporations whose paid-up capital shown in their financial statements for the preceding taxation year did not exceed \$15 million (SME corporations) may avail themselves of this deferral of payment, without interest, of instalments for the months of November and December 2001.

More specifically, the paid-up capital referred to herein is that calculated for the application of the tax on capital. This paid-up capital must be determined on a worldwide basis, taking into account the paid-up capital attributable to associated corporations, including that of associated corporations that are not subject to the *Taxation Act*.

¹ Ministère des Finances du Québec Bulletins d'information 2001-10 and 2001-11.

For greater clarity, cooperatives which qualify as SME corporations according to this criterion based on paid-up capital, will also be permitted to defer their instalments for the months of November and December 2001.

Insurance corporations will also be able to defer their instalments for the months of November and December 2001. In this respect, the paid-up capital of an insurance corporation must be established as if it was a bank for the application of the tax on capital, and its paid-up capital must include, notably, its paid-up capital stock and any interest in the nature of capital stock.

□ Specific case of corporations whose taxation year ends after September 30, 2001 and before April 1, 2002

For the purpose of granting an interest-free deferral of at least six months of the payment of instalments that would otherwise be due for the months of October, November and December 2001 to corporations whose taxation year ends during the period between September 30, 2001 and April 1, 2002, and in view of a corporation's obligation to pay its balance no later than two months after the end of its taxation year, specific application measures will be put in place for SME corporations whose taxation year ends during this period.

• Taxation year ending in October 2001

An adjustment will be made to the measures already announced, more specifically as concerns the rules that apply to SME corporations whose taxation year ends after September 30, 2001 and before February 1, 2002.

More particularly, the instalments for October 2001 of SME corporations whose taxation year ends in October 2001, as well as the balance that would otherwise be due, solely from such SME corporations, no later than two months after the end of that taxation year, may be paid at the same time as the tax return for such year is filed, i.e. no later than six months after the end of that taxation year.

For greater clarity, these are instalments of income tax, tax on capital, compensatory tax and contributions to the Québec Youth Fund for the month of October 2001. Cooperatives and insurance corporations may also avail themselves of this interest-free deferral, as described above.

For example, an SME corporation whose taxation year ends on October 31, 2001, may defer payment, without interest, of its instalments for October 2001, as well as the balance due for that year, to the time it files its tax return for that year, i.e. no later than April 30, 2002.

For greater clarity, the instalments for November and December 2001 may be paid at the same time as the instalments for the months of May and June 2002 respectively.

- **Taxation year ending in November 2001**

The instalments for the months of October and November 2001 of SME corporations whose taxation year ends in November 2001, as well as the balance that would otherwise be due, solely from such SME corporations, no later than two months after the end of that taxation year, may be paid at the same time as the tax return for that year is filed, i.e. no later than six months after the end of that taxation year.

For example, an SME corporation whose taxation year ends on November 30, 2001, may defer payment, without interest, of its instalments for October and November 2001, as well as the balance due for that year, to the time it files its tax return for that year, i.e. no later than May 31, 2002.

For greater clarity, the instalments for December 2001 may be paid at the same time as the instalments for June 2002.

- **Taxation year ending after November 30, 2001 and before February 1, 2002**

The instalments for the months of October, November and December 2001 of SME corporations whose taxation year ends after November 30, 2001 and before February 1, 2002, as well as the balance that would otherwise be due, solely from such SME corporations, no later than two months after the end of that taxation year, may be paid at the same time as the tax return for that year is filed, i.e. no later than six months after the end of that taxation year.

For example, an SME corporation whose taxation year ends on January 31, 2002, may defer payment, without interest, of its instalments for October, November and December 2001, as well as the balance due for that year, to the time it files its tax return for that year, i.e. no later than July 31, 2002.

- **Taxation year ending in February 2002**

SME corporations whose taxation year ends in February 2002 will be able to pay their instalments for the month of October 2001 at the same time as their instalments for April 2002.

As for their instalments for November and December 2001, as well as the balance that would otherwise be due, solely from such SME corporations, no later than two months after the end of that taxation year, they may be paid at the same time as their tax returns for that year are filed, i.e. no later than six months after the end of that taxation year.

For example, an SME corporation whose taxation year ends on February 28, 2002, may defer payment, without interest, of its instalments for November and December 2001, as well as the balance due for that year, to the time it files its tax return for that year, i.e. no later than August 31, 2002.

- **Taxation year ending in March 2002**

SME corporations whose taxation year ends in March 2002 will be able to pay their instalments for the month of October 2001 at the same time as their instalments for April 2002, and their instalments for November 2001 at the same time as their instalments for May 2002.

As for their instalments for December 2001, as well as the balance that would otherwise be due, solely from such SME corporations, no later than two months after the end of that taxation year, they may be paid at the same time as their tax returns for that year are filed, i.e. no later than six months after the end of that taxation year.

For example, an SME corporation whose taxation year ends on March 31, 2002, may defer payment, without interest, of its instalments for December 2001, as well as the balance due for that year, to the time it files its tax return for that year, i.e. no later than September 30, 2002.

1.3 Reduction in the number of instalments payable by small employers consisting of deductions at source and employer contributions

All employers who make deductions at source from the remuneration they pay to their employees, in respect of income tax and contributions to the Québec Pension Plan (QPP), must remit the amounts thus deducted to the MRQ. They must also remit the employer contributions they are obliged to pay in respect of this remuneration to the QPP and the Health Services Fund. These payments must be made no later than the dates fixed by tax legislation and regulations.

The date on which employers must remit the amounts related to the remuneration paid to their employees during a given calendar year is based, on one hand, on the date this remuneration is paid and, on the other hand, on the “average monthly withholding” of the employer for the calendar year preceding the calendar year in question, or the calendar year before that.

In short, the average monthly withholding of an employer for a given calendar year corresponds to the average of the monthly payments he must make for that year. Furthermore, where the employer is a corporation, the employer’s average monthly withholding must be determined based on the payments that must be made by the corporations with which the employer is associated.

Thus, where an employer’s average monthly withholding is \$50 000 or more, the employer may be obliged to pay up to four instalments per month

to the MRQ. If the employer's average monthly withholding is \$15 000 or more, but less than \$50 000, the employer may be obliged to pay two instalments per month.

For an average monthly withholding of less than \$15 000, the deductions at source and employer contributions relating to remuneration paid during a given month must be remitted to the MRQ no later than the 15th day of the following month. However, where the MRQ considers that the total amount to be paid by an employer for a given calendar year during which remuneration will be paid, or for the preceding calendar year, will not exceed \$1 200, it may authorize the employer to remit the total amount payable for the calendar year in question in a single instalment, no later than January 15 of the following year.

Subject to this exception, small employers may thus be obliged to pay up to twelve instalments to the MRQ with regard to the remuneration they pay in the course of a given year.

❑ Possibility of paying quarterly instalments

In order to permit small employers to increase their liquid assets in the short term and ease their administrative burden, especially as concerns the number of forms they must submit to the MRQ to discharge their obligations as employers, amendments will be made to tax regulations to reduce the number of instalments payable for a single year from twelve to four, with regard to all remuneration paid after December 31, 2001.

More particularly, the MRQ will be able to authorize employers whose average monthly withholding does not exceed \$1 000 for the year preceding a given calendar year in which remuneration will be paid, or the year before that, and who, with regard to deductions at source, employer contributions and sales tax, have acted in compliance with tax laws, to remit the amounts they must deduct at source with regard to this remuneration, as well as the attendant employer contributions, no later than:

- April 15 of the given calendar year, as concerns the amounts relating to any remuneration paid during January, February and March of that year;
- July 15 of the given calendar year, as concerns the amounts relating to any remuneration paid during April, May and June of that year;
- October 15 of the given calendar year, as concerns the amounts relating to any remuneration paid during July, August and September of that year;
- January 15 of the year following the given calendar year, as concerns the amounts relating to any remuneration paid during October, November and December of that year.

For greater clarity, the specific rules that currently apply to very small employers will be maintained, and these employers are entitled to continue making a single payment to the MRQ no later than fifteen days after the end of a calendar year during which remuneration was paid.

□ Application details

The files of employers who are registered for source deduction purposes will be examined, and those employers who meet the above-mentioned eligibility conditions will be notified that they may choose to pay their instalments no later than the 15th of the month following the end of each of the four quarters of a given calendar year. Close to 105 000 employers will be affected each year by this new measure.

Where an employer, during a given calendar year, receives a notice from the MRQ to the effect that the employer no longer satisfies the condition relating to compliance with tax laws, that employer must remit to the MRQ, no later than the 15th of the month following the month in which the notice was sent, the total amount of the deductions at source and employer contributions attributable to the remuneration paid during that month and any preceding month of the quarter. With regard to remuneration paid during any month of the calendar year in question which is later than the month in which the notice was sent, the employer must pay to the MRQ, no later than the 15th of the following month, the deductions at source and attendant employer contributions.

1.4 Significant reduction in the tax on capital and technical change

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 not.

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. In the specific case of a farm corporation or a corporation whose activities consist mainly in carrying on a fishing business, a deduction of \$400 000 is allowed in the calculation of paid-up capital. Lastly, a rate of 0.64% is applied to such paid-up capital.

Furthermore, the tax on capital applicable to financial institutions is calculated on a different basis from 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, mainly deposits. In addition, a tax rate of 1.28% is applied to their paid-up capital.

To keep Québec's tax system competitive and stimulate investment in Québec, the rates of the tax on capital will be gradually reduced to less than 50% of those that currently apply. Furthermore, corporations will eventually be able to claim a deduction of \$1 million in calculating their paid-up capital. In addition, the minimum amount of tax on capital payable by a corporation for taxation year, generally \$250 and, in the specific case of a farm corporation or a corporation whose activities consist mainly in carrying on a fishing business, \$125, will be eliminated.

Lastly, a technical change will be made concerning the deduction of \$400 000 a farm corporation or a corporation whose activities consist mainly in carrying on a fishing business may claim in calculating its paid-up capital.

1.4.1 Rate of tax on capital cut by more than half by 2007

□ Corporations that are not financial institutions

The rate of the tax on capital of corporations that are not financial institutions, currently 0.64%, will be gradually reduced to 0.3%.

More specifically, this reduction will be granted gradually, on January 1 of each year from 2003 to 2007. Accordingly, the first reduction will apply on January 1, 2003, the rate of the tax falling from 0.64% to 0.6%. Thereafter, the rate will be reduced by 0.075 percentage points on January 1 of each year, until it reaches a rate of 0.3% on January 1, 2007.

The following table gives the rates of the tax on capital of corporations that are not financial institutions, from now until 2007.

TABLE 1.1

REDUCTION OF THE GENERAL RATE OF THE TAX ON CAPITAL (In percent)

	Current	2003	2004	2005	2006	2007
General rate of the tax on capital	0.64	0.6	0.525	0.45	0.375	0.3

Note: The rate reductions will become effective on January 1 of each year.

If a corporation's taxation year does not coincide with the calendar year, the rate effectively applied for such taxation year that straddles two calendar years will be a weighted rate reflecting the number of days of the taxation year included in each of the two calendar years.

☐ Financial institutions

The rate of the tax on capital of financial institutions, currently 1.28%, will be gradually reduced to 0.6%. The corporations covered by this reduction are banks, savings and credit unions, loan companies, trust companies and corporations that trade in securities.

More specifically, this reduction will be granted gradually starting on January 1 of each year, from 2003 to 2007. Accordingly, the first reduction will apply on January 1, 2003, the rate of the tax falling from 1.28% to 1.2%. Thereafter, the rate will be reduced by 0.15 percentage points on January 1 of each year, reaching 0.6% on January 1, 2007.

The following table gives the rates of the tax on capital of financial institutions, from now until 2007.

TABLE 1.2
**REDUCTION OF THE RATE OF THE TAX ON CAPITAL APPLICABLE TO
 FINANCIAL INSTITUTIONS**
 (In percent)

	Current	2003	2004	2005	2006	2007
Rate of the tax on capital applicable to financial institutions	1.28	1.2	1.05	0.9	0.75	0.6

Note: The rate reductions will become effective on January 1 of each year.

If a corporation's taxation year does not coincide with the calendar year, the rate effectively applied for such taxation year that straddles two calendar years will be a weighted rate reflecting the number of days of the taxation year included in each of the two calendar years.

1.4.2 Gradual exemption of the first \$1 million of paid-up capital

☐ Deduction of \$1 million in the calculation of paid-up capital

To further reduce the burden of the tax on capital of corporations, they will be able to claim, in addition to the reductions indicated above, a deduction in the calculation of their paid-up capital that may eventually reach \$1 million.

However, a financial institution or a corporation exempt from income tax but subject to payment of the tax on capital, for a taxation year, may not claim this deduction, for such taxation year. Similarly, corporations governed by an act establishing a labour-sponsored fund, and Capital régional et coopératif Desjardins, i.e. corporations subject to income tax and the tax on capital, but that enjoy a tax exemption, may not claim this new deduction in calculating their paid-up capital.

- **Maximum applicable deductions**

This deduction will be granted gradually on January 1 of each year from 2003 to 2006. The first segment of the deduction will apply starting January 1, 2003, the amount of the deduction being raised thereafter on January 1 of each year and reaching the maximum amount on January 1, 2006.

The following table shows the amounts of the maximum deduction corporations may claim starting January 1, 2003.

TABLE 1.3

AMOUNTS OF THE MAXIMUM DEDUCTION

(In dollars)

	2003	2004	2005	2006
Amount	250 000	500 000	750 000	1 000 000

Note: The deductions become effective on January 1 of each year.

- **Taxation year that does not coincide with the calendar year**

If a corporation's taxation year does not coincide with the calendar year, the maximum deduction such corporation may claim in calculating its paid-up capital for such taxation year that straddles two calendar years will be a weighted deduction reflecting the number of days of the taxation year included in each of the two calendar years.

For instance, a corporation with a fiscal year that ends on September 30 of each year may claim, for each of its taxation years ending in 2003, 2004 and 2005, a maximum deduction in calculating its paid-up capital in each of these years of \$186 986, \$437 158 and \$686 986.

The following table illustrates the calculations.

TABLE 1.4

CALCULATION OF THE MAXIMUM DEDUCTION FOR A TAXATION YEAR STRADDLING TWO CALENDAR YEARS

Taxation year ending September 30	Deduction relating to the first calendar year	Deduction relating to the second calendar year	Maximum deduction
2003	[((92/365) x \$0) + ((273/365) x \$250 000)]		= \$186 986
2004	[((92/366) x \$250 000) + ((274/366) x \$500 000)]		= \$437 158
2005	[((92/365) x \$500 000) + ((273/365) x \$750 000)]		= \$686 986

- **Reduction of the maximum deduction depending on size**

This new deduction is designed initially to reduce the burden of the tax on capital on small corporations. Accordingly, to ensure that this deduction first applies to such corporations, the maximum deduction a corporation may claim will be reduced linearly during the period from 2003 to 2005.

More specifically, this reduction of the maximum deduction, for a given taxation year, will be one dollar for each three dollars by which the paid-up capital of a corporation determined for the preceding taxation year exceeds the maximum deduction such corporation could otherwise claim for the given taxation year. Accordingly, the maximum deduction will be partially reduced if such paid-up capital is between the amount of such maximum deduction and four times the amount of such maximum deduction.

The following table shows the amounts of paid-up capital for which a partial reduction of the maximum deduction must be applied, when the taxation year coincides with the calendar year.

TABLE 1.5

AMOUNTS OF PAID-UP CAPITAL FOR WHICH A PARTIAL REDUCTION OF THE MAXIMUM DEDUCTION IS APPLICABLE

Calendar year	Maximum deduction	Portion of reduction
2003	\$250 000	\$250 000 and \$1 000 000
2004	\$500 000	\$500 000 and \$2 000 000
2005	\$750 000	\$750 000 and \$3 000 000
2006	\$1 000 000	No reduction

More specifically, this reduction will be determined in percentage terms and will correspond, for a given taxation year, to the proportion obtained by dividing the amount by which the paid-up capital of such corporation determined for the preceding taxation year exceeds the maximum amount of the deduction such corporation may otherwise claim for such given taxation year, by three times the maximum amount of the deduction such corporation may otherwise claim for such given taxation year.

For instance, a corporation with fixed paid-up capital of \$700 000 and a fiscal year ending on September 30 of each year must, for each of its taxation years ending in 2003, 2004 and 2005, reduce the maximum deduction it may claim for each of these taxation years by 91.45%, 20.04% and 0.63% respectively.² Accordingly, the deductions such corporation may otherwise claim for each of these taxation years would be \$15 987 (i.e. \$186 986 reduced by 91.45%), \$349 552 (i.e. \$437 158 reduced by 20.04%) and \$682 658 (i.e. \$686 986 reduced by 0.63%).

The following table illustrates the calculations.

TABLE 1.6

**CALCULATION OF THE PERCENTAGE REDUCTION FOR A
TAXATION YEAR STRADDLING TWO CALENDAR YEARS**

(Paid-up capital of \$700 000)

Taxation year ending September 30	Amount by which paid-up capital exceeds the maximum deduction	Three times the maximum deduction	Percentage reduction
2003	[(\$700 000 – \$186 986) ÷	(3 x \$186 986)]	= 91.45%
2004	[(\$700 000 – \$437 158) ÷	(3 x \$437 158)]	= 20.04%
2005	[(\$700 000 – \$686 986) ÷	(3 x \$686 986)]	= 0.63%

In the case of a taxation year that straddles calendar years 2005 and 2006, the percentage reduction obtained, which may not exceed 100%, will be multiplied by the proportion of the number of days of such taxation year included in calendar year 2005 to the total number of days in such taxation year.

For instance, a corporation with fixed paid-up capital of \$900 000 and a taxation year ending on April 30, 2006 must reduce the deduction it may otherwise claim, for such taxation year, by 1.82%. Accordingly, the deduction such corporation may claim for such taxation year would be \$817 046 rather than \$832 192.

² For the sake of simplicity, the calculations are made independently for each taxation year. For instance, the results of the calculations for taxation year 2003 are not taken into consideration in the calculations for taxation year 2004. Accordingly, the paid-up capital used to determine the percentage reduction applicable to taxation year 2004, i.e. the paid-up capital for taxation year 2003, is \$700 000.

The following tables illustrate these calculations.

TABLE 1.7

**CALCULATION OF THE MAXIMUM DEDUCTION FOR A TAXATION YEAR
ENDING APRIL 30, 2006**

Deduction relating to calendar year 2005		Deduction relating to calendar year 2006		Maximum deduction
$[(245/365) \times \$750\,000]$	+	$[(120/365) \times \$1\,000\,000]$	=	\$832 192

TABLE 1.8

**CALCULATION OF THE PERCENTAGE REDUCTION FOR A
TAXATION YEAR ENDING APRIL 30, 2006**

(Paid-up capital \$900 000)

Amount by which paid- up capital exceeds the maximum deduction		Three times the maximum deduction		Proportion of number of days in 2005		Percentage reduction
$[(\$900\,000 - \$832\,192)]$	÷	$(3 \times \$832\,192)$		$\times (245/365)$	=	1.82%

For greater clarity, no reduction will apply for taxation years beginning after December 31, 2005.

The paid-up capital used to determine the reduction applicable for a given taxation year will correspond to the total of the corporation's paid-up capital for its preceding taxation year and the paid-up capital of the corporations, if any, with which the corporation is associated, on a world basis, in the course of the given taxation year, determined for their last taxation year ended in the 12 months preceding the beginning of the given taxation year of the corporation.

However, this reduction, calculated on the basis of the total paid-up capital of the associated corporations, will be determined independently for each corporation in order to determine the maximum deduction it may claim, so that its taxation year-end is taken into account.

- **Division of the deduction among associated corporations**

The members of a group of associated corporations must, for their taxation year ending in the same calendar year, allocate among themselves a percentage of the deduction, the total of which may not exceed 100%, by submitting an agreement to that effect to the MRQ.

The percentage thus allocated will be applied independently to each of the corporations to determine the maximum deduction each may claim, taking into account the date of their respective taxation year-end.

For instance, the deduction a corporation that is a member of a group of associated corporations with total paid-up capital of \$186 986 may claim,³ for its taxation year ending September 30, 2003, will be \$93 493 rather than the amount of \$186 986 otherwise calculated, if the division agreement for the 2003 taxation years allocates a 50% percentage deduction to it.

For greater clarity, the percentage reduction depending on size indicated above must also, if applicable, be applied to the result of the preceding calculation to determine the deduction a corporation may claim in calculating its paid-up capital.

For instance, a corporation that is a member of a group of associated corporations with total fixed paid-up capital of \$700 000 and whose division agreement, for its taxation year ending September 30, 2003, allocates a 50% percentage deduction to it, may claim a deduction of \$7 994, because of the first reduction of 91.45% depending on size, which decreases the deduction from \$186 986 to \$15 987, and the second reduction depending on the division agreement that allocates a 50% percentage deduction to it, which decreases the deduction from \$15 987 to \$7 994.

- **Other application details**

The deduction a corporation may claim in calculating its paid-up capital will apply in addition to the other deductions such corporation may claim. Furthermore, this deduction will be granted before the reduction for investment a corporation may claim, if applicable.

- **Elimination of the minimum amount of tax on capital**

Under existing rules, the tax on capital payable, for a taxation year, by a corporation that is not a farm corporation or a corporation whose activities consist mainly in carrying on a fishing business may generally not be less than \$250.

In the case of a farm corporation or a corporation whose activities consist mainly in carrying on a fishing business, the tax on capital payable, for a taxation year, may not be less than \$125.

Furthermore, the tax on capital payable by a mining company that has not reached the production stage is equal to \$250, regardless of its paid-up capital.

³ This amount corresponds to the amount of the maximum deduction a corporation may claim for its taxation year ending September 30, 2003, as illustrated in Table 1.4.

In order to enable corporations to benefit fully from the new deduction of up to \$1 million in calculating their paid-up capital, the minimum amounts of \$250 and \$125 of tax on capital payable by corporations will be eliminated. In addition, a mining company that has not reached the production stage will no longer have to pay the tax on capital, regardless of its paid-up capital.

These changes will apply regarding taxation years of a corporation ending after December 31, 2002.

1.4.3 Technical change

As indicated above, a farm corporation or a corporation whose activities consist mainly in carrying on a fishing business may claim a deduction of \$400 000 in calculating its paid-up capital. Essentially, this deduction is designed to recognize the fact that, compared with other businesses, these corporations require a relatively high level of capitalization in relation to the income they generate. However, this deduction must be divided among associated corporations, as the case may be.

An obligation to divide among the members of a group of associated corporations exists in the case of many tax incentives or relief measures that include an upper limit. In particular, this obligation applied regarding the \$200 000 business limit that, before it was eliminated in 1999, enabled a Canadian-controlled private corporation to receive a reduction in its tax rate.

The obligation to divide the business limit did, however, include a measure of relief that allowed two corporations associated solely because of their association with a third corporation to each benefit from the \$200 000 business limit if the third corporation made the appropriate election. The business limit of such third corporation was then deemed to be zero.

The reasons that justified allowing two corporations associated in such a context to each benefit from a \$200 000 business limit also apply in the case of the \$400 000 deduction in calculating paid-up capital that a farm corporation or a corporation whose activities consist mainly in carrying on a fishing business may claim.

Accordingly, the legislation will be amended to allow two corporations that are associated solely because of their association with a third corporation to each claim a deduction of up to \$400 000 in calculating their paid-up capital, if the third corporation makes the appropriate election.

More specifically, if the third corporation makes the election, for a taxation year, using a form prescribed by the MRQ, it shall be deemed not to be associated with either of these two corporations in such taxation year, and the amount it may deduct, for such taxation year, in calculating its paid-up capital as a farm corporation or a corporation whose activities consist mainly in carrying on a fishing business will be nil.

Accordingly, for the purposes of the deduction of \$400 000 a farm corporation or a corporation whose activities consist mainly in carrying on a fishing business may claim, both corporations associated with each other solely because of their association with a third corporation will be deemed, for such taxation year, not to be so associated.

This change will apply for taxation years 2001 and following, if the taxation year or at least one of the corporations covered by this election ends after the day of the Budget Speech.

1.5 Broadening of eligibility for the tax holiday for small and medium-sized manufacturing enterprises in remote resource regions

The March 29, 2001 Budget Speech introduced a ten-year tax holiday for small and medium-sized manufacturing enterprises in remote resource regions to stimulate economic development in these regions, where the employment situation is the most difficult. A number of clarifications were made to the measure on July 5, 2001, concerning the notion of manufacturing and processing, and the notion of establishment.⁴ Lastly, the notion of remote resource region was broadened on August 21, 2001, to include three regional county municipalities (RCMs) far from major centres.⁵

Accordingly, in general, a corporation all of whose activities consist mainly in carrying on a manufacturing or processing business in one of these regions may claim a tax holiday until December 31, 2010, with respect to income tax, the tax on capital and the employer contribution to the HSF. Furthermore, the tax bases covered by this tax holiday are not capped.

More specifically, a corporation receives the full tax holiday for a taxation year if its paid-up capital applicable for such year, calculated on a consolidated basis, does not exceed \$10 million, and a partial tax holiday if it is between \$10 million and \$15 million. Lastly, a corporation receives no tax holiday if its paid-up capital applicable for a taxation year, calculated on a consolidated basis, is \$15 million or more.

To further encourage the establishment and expansion of manufacturing corporations in remote resource regions, the tax holiday will be improved retroactively from March 30, 2001. More particularly, the eligibility thresholds of \$10 million and \$15 million will be raised to \$20 million and \$30 million respectively.

4 Ministère des Finances du Québec Bulletin d'information 2001-6.

5 Ministère des Finances du Québec Bulletin d'information 2001-7.

For the purposes of the tax holiday, a corporation must generally have establishments, within the meaning of the *Taxation Act*, only in remote resource regions. This condition will be eased so that a corporation may benefit from the tax holiday even if it has establishments outside remote resource regions.

❑ Eligibility thresholds raised

An eligible corporation may receive the full tax holiday for a taxation year if its paid-up capital applicable for such year, calculated on a consolidated basis, does not exceed \$20 million, and a partial tax holiday if its paid-up capital is between \$20 million and \$30 million.

Lastly, when the paid-up capital of an eligible corporation applicable for a taxation year, calculated on a consolidated basis, is \$30 million or more, the corporation may not receive the tax holiday for 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 \$30 million.

• Paid-up capital calculated on a consolidated basis

As indicated above, the paid-up capital of a corporation, calculated on a consolidated basis, will be used to determine the corporation's eligibility for the tax holiday. Furthermore, if the paid-up capital of an eligible corporation, applicable for a taxation year, is between \$20 million and \$30 million, it will also be used to determine the amount of the tax holiday the corporation may receive for such year.

The rules for calculating the paid-up capital of a corporation, on a consolidated basis, were specified in the March 29, 2001 Budget Speech. Briefly, the paid-up capital of an eligible corporation is calculated including the paid-up capital attributable to associated corporations. Similarly, the paid-up capital calculated on a consolidated basis must include the paid-up capital attributable to a partnership, a trust or an individual, deemed associated with such corporation, according to the rules previously described.

Lastly, the paid-up capital of a corporation, calculated on a consolidated basis, must be determined on a world basis. Accordingly, the paid-up capital of the corporation and the corporations associated with it must, for the purposes of this eligibility criterion, be calculated on a world 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 benefit from the tax holiday on all its income from an eligible business. This tax holiday consists 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 \$20 million but less than \$30 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:

$$1 - \left[\frac{(\text{paid-up capital calculated on a consolidated basis} - \$20 \text{ million})}{\$10 \text{ million}} \right]$$

Accordingly, if the paid-up capital calculated on a consolidated basis is equal to or greater than \$30 million, no deduction is allowed.

In addition, if the taxation year of the eligible corporation includes March 30, 2001, the deduction must also be reduced, and will be allowed in proportion to the number of days of the taxation year that follow March 29, 2001 compared with 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 with the number of days of such taxation year.

- **Paid-up capital eligible for the tax holiday**

An eligible corporation may receive, for each taxation year, a tax holiday with respect to the tax on capital. This holiday consists of a deduction in the calculation of paid-up capital, which corresponds, 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 \$20 million but less than \$30 million, the deduction in the calculation of paid-up capital 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 applicable for a given taxation year is \$28 million may claim a deduction, for such given taxation year, equal to 20% of its paid-up capital.

In addition, in the case of an eligible corporation whose taxation year includes March 30, 2001, the deduction the eligible corporation may claim in calculating its paid-up capital must also be reduced, being allowed solely on

the basis of the number of days of the taxation year that follow March 29, 2001 compared with 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 with the number of days of such taxation year.

- **Tax holiday relating to the employer contribution to the HSF**

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

Accordingly, if paid-up capital calculated on a consolidated basis is greater than \$20 million but less than \$30 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 \$24 million, the exemption from the employer contribution to the HSF, applicable to such taxation year, will be reduced to 60%.

In addition, in the case of an eligible corporation whose taxation year includes March 30, 2001, the exemption it may claim, for such year, will also be reduced to take into consideration only the wages paid or deemed paid as of the pay period that includes March 30, 2001.

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.

- **Anti-avoidance rule**

A change will be made to the special anti-avoidance rule announced in the March 29, 2001 Budget Speech. According to this special rule, 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 with the paid-up capital of the eligible corporation applicable for such taxation year.

Henceforth, this special anti-avoidance rule will apply only if, following such an increase, the paid-up capital of the corporation determined on a consolidated basis reaches or exceeds \$30 million.

- **Application date**

These changes to the tax holiday will apply to an eligible corporation for taxation years ending after March 29, 2001.

- **Streamlining regarding an establishment outside a remote resource region**

For the purposes of the tax holiday, a corporation generally must have establishments, within the meaning of the *Taxation Act*, only in remote resource regions. Essentially, this condition is designed to ensure that the tax holiday is granted only regarding activities generated in remote resource regions.

However, this condition was eased on July 5, 2001 regarding two specific situations, namely when a corporation assigns salespersons to various points of sale located outside a remote resource region or when it maintains a head office outside such region.⁶

Accordingly, in these two situations, when all or substantially all the payroll of the corporation, for a taxation year, is attributable to employees who work in an establishment located in a remote resource region, such corporation is deemed to have establishments only in such remote resource region during such taxation year.

For this purpose, payroll is determined according to the wages incurred by the corporation in the taxation year, with respect to its employees. The wage that must be considered for each employee includes director's fees, bonuses, performance premiums, commissions, remuneration for work done in excess of normal work hours and benefits that must be included in calculating the employee's income.

Retroactive to March 30, 2001, this streamlining measure will apply to all situations in which a corporation is considered to have an establishment outside the remote resource regions, rather than just in the two situations currently stipulated.

1.6 Temporary improvement to various refundable tax credits granted in certain regions

In recent years, the government has introduced many specific fiscal measures, for the benefit of certain regions, to bolster economic development in these regions and stimulate the development and expansion of businesses.

Accordingly, various refundable tax credits were put in place to directly encourage job creation. Generally speaking, these refundable tax credits are granted with respect to the increase in payroll attributable to eligible

6 Ministère des Finances du Québec Bulletin d'information 2001-6.

employees of an eligible corporation operating in one of the target regions, regarding five consecutive calendar years.

The economic context in recent months has forced some companies to reduce their activities and lay off employees, which will necessarily result in a decrease in their payroll.

To recognize the exceptional aspect of the current economic situation, two adjustments will be made to the application details of three refundable tax credits that focus on the regions.

The first adjustment will enable a corporation to apply for the revocation of its eligibility certificate. Accordingly, a corporation that can not claim the tax credit for calendar year 2001, because of the decline in its payroll, may claim the tax credit in a subsequent year without affecting the number of years in which it may benefit from the credit. Furthermore, this adjustment will enable the corporation to increase the amount of the tax credit by calculating the increase in its payroll compared with a calendar year in which payroll is lower.

In addition, a corporation may reduce the payroll of its reference calendar year. This second adjustment will help maintain existing jobs and encourage the re-hiring of laid-off employees.

1.6.1 Refundable tax credit for processing activities in the resource regions

The refundable tax credit for processing activities in the resource regions was introduced in the March 29, 2001 Budget Speech. Some changes were made to it on July 5, 2001 to broaden the notion of certified business and streamline the conditions for issuing an eligibility certificate.⁷ Lastly, the notion of resource region was broadened on August 21, 2001, to include three RCMs far from major centres.⁸

In general terms, the refundable tax credit for processing activities in the resource regions is granted with respect to the increase in payroll attributable to eligible employees of an eligible corporation operating in one of the resource regions of Québec, regarding five consecutive calendar years.

To be considered eligible for this tax credit, a corporation must, however, carry on a certified business, i.e. a business regarding which an eligibility certificate has been issued by Investissement Québec.

7 *Ibid.*

8 Ministère des Finances du Québec Bulletin d'information 2001-7.

Furthermore, to determine its refundable tax credit for a given calendar year, an eligible corporation must compare the payroll for such given calendar year with that of its reference calendar year. The reference calendar year corresponds to the calendar year preceding the one during which the corporation began to carry on a certified business. Accordingly, a corporation that obtained an eligibility certificate with respect to calendar year 2001 will determine the increase in its payroll compared with reference calendar year 2000.

However, as mentioned above, some corporations have been or will be forced to reduce their payroll in 2001. In this context, such a corporation that obtained an eligibility certificate with respect to calendar year 2001 will be unable to obtain the refundable tax credit for such calendar year.

To enable eligible corporations to receive a tax credit regarding the jobs they create and, in certain situations, regarding the jobs they maintain, two adjustments will be made to the existing provisions of the refundable tax credit for processing activities in the resource regions.

□ Adjustment regarding the eligibility certificate

Investissement Québec may, at the request of an eligible corporation, cancel the eligibility certificate issued to such corporation regarding calendar year 2001. Such an eligible corporation may, at a later date, apply for an eligibility certificate regarding a subsequent calendar year if it otherwise satisfies the other eligibility conditions, and thus receive the refundable tax credit regarding jobs created as of such subsequent calendar year.

However, such a cancellation may only be requested regarding an eligibility certificate issued regarding calendar year 2001, and the eligible corporation must submit its request to Investissement Québec no later than April 1, 2002.

□ Adjustment regarding payroll for reference calendar year 2000 or 2001

Currently, an eligible corporation may, regarding a calendar year, receive 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.

Component B of the formula will be adjusted when the reference calendar year of an eligible corporation is 2000 or 2001. Accordingly, the total wages paid by the corporation to its eligible employees for either of these reference calendar years will be reduced by 10%.

An eligible corporation may use this adjusted amount to determine the increase in its payroll, for the two consecutive calendar years following its reference calendar year 2000 or 2001, as the case may be.

For instance, a corporation that obtained an eligibility certificate regarding calendar year 2002 will determine the increase in its payroll for calendar years 2002 and 2003 by using, for its reference calendar year 2001, an amount equal to 90% of all the wages it paid to its eligible employees for such reference calendar year. However, the calculation of the increase in payroll for calendar years 2004, 2005 and 2006 will be made using the current formula, i.e. without any adjustment to the payroll of the reference calendar year.

As mentioned above, this adjustment will be made only for reference calendar year 2000 or 2001, as the case may be. Accordingly, an eligible corporation that obtains the cancellation of its eligibility certificate issued with respect to calendar year 2001 and that applies for an eligibility certificate with respect to calendar year 2003 for example, may not use the adjustment to payroll of the reference calendar year, because the reference calendar year of this corporation is after 2001.

1.6.2 Refundable tax credit for Gaspésie and certain maritime regions of Québec

On November 17, 2000, the refundable tax credit for Gaspésie and certain maritime regions of Québec was introduced.⁹ Changes were subsequently made to it in the March 29, 2001 Budget Speech, in particular concerning the calculation of payroll for the reference year. Lastly, on July 5, 2001, a streamlining measure was introduced to the conditions for issuing an eligibility certificate.¹⁰

Generally speaking, this refundable tax credit is allowed with respect to the increase in payroll attributable to eligible employees of an eligible corporation operating in the administrative regions of Gaspésie-Îles-de-la-Madeleine and Côte-Nord and in the Matane RCM, regarding five consecutive calendar years.

Like the changes made to the refundable tax credit for processing activities in the resource regions, two adjustments will be made to the existing terms

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

10 Ministère des Finances du Québec Bulletin d'information 2001-6.

and conditions of the refundable tax credit for Gaspésie and certain maritime regions of Québec.

□ Adjustment regarding the eligibility certificate

Investissement Québec may, at the request of an eligible corporation, cancel the eligibility certificate issued to such corporation regarding calendar year 2001. Such an eligible corporation may, at a later date, apply for an eligibility certificate regarding a subsequent calendar year if it otherwise satisfies the other eligibility conditions, and thus receive the refundable tax credit regarding jobs created as of this subsequent calendar year.

In addition, Investissement Québec may cancel, at the request of an eligible corporation, an eligibility certificate issued to such corporation with respect to calendar year 2000. However, such cancellation will only become effective as of calendar year 2001. At a later date, such eligible corporation may apply for an eligibility certificate regarding a subsequent calendar year if it otherwise satisfies the other eligibility conditions, and thus receive the refundable tax credit regarding jobs created as of such subsequent calendar year. However, in such a case, the eligible corporation may only receive the tax credit regarding the four consecutive calendar years, starting with the one regarding which it receives a new eligibility certificate, because it has already received the tax credit regarding calendar year 2000.

The cancellation of an eligibility certificate may be requested only for a certificate issued regarding calendar year 2000 or 2001, and the eligible corporation must submit its request to Investissement Québec no later than April 1, 2002.

□ Adjustment regarding payroll of the reference calendar year 1999, 2000 or 2001

The details for determining the tax credit will be changed to enable an eligible corporation to adjust the payroll of its reference calendar year if the reference calendar year is 1999, 2000 or 2001.

This adjustment will be made according to the same procedures stipulated for the purposes of the refundable tax credit for processing activities in the resource regions. Accordingly, the total wages paid by a corporation to its eligible employees for one of these reference calendar years will be reduced by 10%, and this adjustment may be used in determining the increase in payroll of an eligible corporation for the two consecutive calendar years following its reference calendar year 2000 or 2001, as the case may be. In the specific case of an eligible corporation whose reference calendar year is 1999, this adjustment may be used in determining the increase in payroll for calendar years 2001 and 2002.

As mentioned above, this adjustment will be made only for reference calendar year 1999, 2000 or 2001, as the case may be. Accordingly, an eligible corporation that obtains the cancellation of its eligibility certificate issued regarding calendar year 2001 and that applies for an eligibility certificate regarding calendar year 2003, for example, may not apply the payroll adjustment for the reference calendar year, because the reference calendar year of such corporation will be later than 2001.

1.6.3 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 concerning the notion of manufacturing were made to it on December 21, 2000.¹¹ In addition, in the March 29, 2001 Budget Speech, the application details of this tax credit were harmonized with those of the refundable tax credit for processing activities in the resource regions, in order to standardize the measures for processing activities in the regions. Lastly, on July 5, 2001, a streamlining measure was introduced regarding the conditions for issuing an eligibility certificate.¹²

Generally speaking, the refundable tax credit for the Vallée de l'aluminium is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in the administrative region of Saguenay–Lac-Saint-Jean, regarding five consecutive calendar years.

Like the changes made to the tax credit for processing activities in the resource regions and the refundable tax credit for Gaspésie and certain maritime regions of Québec, two adjustments will be made to the existing provisions of the refundable tax credit for the Vallée de l'aluminium.

□ Adjustment regarding the eligibility certificate

Investissement Québec may, at the request of an eligible corporation, cancel the eligibility certificate issued to such corporation regarding calendar year 2001. Such an eligible corporation may, at a later date, apply for an eligibility certificate regarding a subsequent calendar year if it otherwise satisfies the other eligibility conditions, and thus receive the refundable tax credit regarding jobs created as of this subsequent calendar year.

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

12 Ministère des Finances du Québec Bulletin d'information 2001-6.

In addition, Investissement Québec may cancel, at the request of an eligible corporation, an eligibility certificate issued to such corporation with respect to calendar year 2000. However, such cancellation will only become effective as of calendar year 2001. At a later date, such eligible corporation may apply for an eligibility certificate regarding a subsequent calendar year if it otherwise satisfies the other eligibility conditions, and thus receive the refundable tax credit regarding jobs created as of such subsequent calendar year. However, in such a case, the eligible corporation may only receive the tax credit regarding the four consecutive calendar years, starting with the one regarding which it receives a new eligibility certificate, because it has already received the tax credit regarding calendar year 2000.

The cancellation of an eligibility certificate may only be requested for a certificate issued regarding calendar year 2000 or 2001, and the eligible corporation must submit its request to Investissement Québec no later than April 1, 2002.

□ Adjustment regarding payroll of the reference calendar year 1999, 2000 or 2001

The details for determining the tax credit will be changed to enable an eligible corporation to adjust the payroll of its reference calendar year if the reference calendar year is 1999, 2000 or 2001.

This adjustment will be made according to the same procedures stipulated for the purposes of the refundable tax credit for processing activities in the resource regions. Accordingly, the total wages paid by a corporation to its eligible employees for one of these reference calendar years will be reduced by 10%, and this adjustment may be used in determining the increase in payroll of an eligible corporation for the two consecutive calendar years following its reference calendar year 2000 or 2001, as the case may be. In the specific case of an eligible corporation whose reference calendar year is 1999, this adjustment may be used in determining the increase in payroll for calendar years 2001 and 2002.

As mentioned above, this adjustment will be made only for reference calendar year 1999, 2000 or 2001, as the case may be. Accordingly, an eligible corporation that obtains the cancellation of its eligibility certificate issued regarding calendar year 2001 and that applies for an eligibility certificate regarding calendar year 2003, for example, may not apply the payroll adjustment for the reference calendar year because the reference calendar year of such corporation will be later than 2001.

1.7 Eligibility of cut stone for the refundable tax credit for resources

As part of the March 29, 2001 Budget Speech, the implementation of a refundable tax credit for resources was announced. This new tax credit is a more direct assistance mechanism that will replace all the tax benefits relating to flow-through shares.

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

Generally speaking, an eligible corporation, i.e. any corporation, other than an excluded corporation, that, during a taxation year, carries on a business in Québec and has an establishment there may, under certain conditions, benefit from the tax credit for such year. For this purpose, 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 a corporation.

In addition, the expression “eligible expenses” of an eligible corporation, for a taxation year, means all the expenses it incurs during this year that are attributable:

- either to exploration expenses that, under the 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 enable an individual to claim a deduction of 100%.

Exploration expenses that, under the 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 enabling 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%.

Lastly, 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.

In short, eligible expenses for the purposes of the refundable tax credit for resources are the Québec expenses covered under the flow-through share system, i.e. exploration expenses relating to a mineral resource, oil and gas exploration expenses and certain expenses related to renewable energy and energy conservation.

As a result of this situation, the field of application of the refundable tax credit for resources is limited to certain very specific natural resources. In the particular case of mineral resources, the *Taxation Act* gives a specific definition of this expression. Accordingly, only the natural resources covered by this definition are covered by the tax credit.

The discovery of certain types of natural resources that are not covered by the definition of mineral resources may require significant exploration expenses to be incurred. Furthermore, it regularly happens that such exploration expenses fail to result in the discovery of a product with commercial potential.

□ Eligible expenses

To afford tax assistance for this type of exploration expense, a change will be made to the type of resources covered by this tax credit. Accordingly, the natural resources covered by the tax credit will henceforth include, in addition to those indicated previously, granite, sandstone, limestone, marble and slate, when these resources are used to make dimension stone, funerary monuments, building stones, cobblestones, sidewalk borders or roofing tiles.

The eligible expenses relating to these new natural resources will be the same as those for mineral resources, i.e. exploration expenses that, under the flow-through share system, enable an individual to claim a deduction of at least 125%.

For greater clarity, this change will apply exclusively for the purposes of the refundable tax credit for resources and does not change the definition of mineral resource for the purposes of the *Taxation Act* or any other law.

Lastly, in view of the special expertise of the ministère des Ressources naturelles du Québec (MRN) in this matter, the tax legislation will be amended to stipulate that, for the purposes of the refundable tax credit for resources, the MRQ may consult the MRN to see if a given type of natural resource is covered by this broader definition. In this regard, only the information needed to obtain an opinion from the MRN will be forwarded to 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.

□ Rate of the refundable tax credit

Under existing rules, the rate of the tax credit a corporation may claim ranges from 20% to 45%. The rate that applies to each situation generally depends on the type of corporation that incurs eligible expenses, i.e. a corporation that exploits a mineral resource or an oil or gas well, or a corporation that does not exploit such a resource, and on the region in which these eligible expenses are incurred. In the specific case of expenses incurred in Québec and relating to renewable energy and to energy conservation, a single rate of 40% applies.

In the case of the natural resources covered by this broadening of the definition, a single rate of 20% will apply, regardless of whether the eligible expenses are incurred by a corporation that exploits a natural resource or by a corporation that does not exploit such a resource.

❑ Other application details

The other application details of the refundable tax credit for resources will also apply regarding the new natural resources it covers.

Accordingly, if eligible expenses regarding which a tax credit has been granted are refunded 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 under the *Taxation Act*. Accordingly, it need not be added in calculating income of an eligible corporation and will not reduce the exploration expenses that can be deducted by such a corporation, if applicable.

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.

❑ Interim financing of the refundable tax credit

The MRN will set up a program to facilitate financing of eligible expenses that were already covered by the refundable tax credit for resources, to cover the period between the time the expenditures relating to these expenses are realized and the time the tax credit is received. This interim financing program will also apply to the eligible expenses relating to the new natural resources covered by the tax credit. Accordingly, corporations that incur eligible expenses regarding such new natural resources may also benefit from this interim financing program.

❑ Application date

This broadening will apply to eligible expenses incurred after the day of the Budget Speech.

1.8 Adjustments to the refundable tax credit regarding E-Commerce Place

The creation of E-Commerce Place was announced on May 11, 2000.¹³ It is located in downtown Montréal and consists of buildings to be constructed on land bounded by de la Montagne, Saint-Antoine and Lucien-L'Allier streets and René-Lévesque boulevard, as well as three planned office towers to be connected to the Molson Centre. E-Commerce Place was initially designed to have 288 300 square metres of rental space.

Briefly, the tax assistance an eligible corporation that moves into E-Commerce Place may receive consists of a refundable tax credit of 25% on the eligible salary incurred no later than December 31, 2010 and paid to its eligible employees to carry out eligible activities, in addition to a five-year tax holiday for the foreign specialists it employs.

However, the amount of the tax credit an eligible corporation may claim, for a taxation year, regarding the eligible salary paid to an eligible employee for such year is limited to \$10 000 per eligible employee. Accordingly, for the purposes of the tax credit, the eligible salary of an eligible employee is limited to \$40 000, calculated on an annual basis.

Lastly, the rate of this tax credit is reduced, as of the sixth year of operation of an eligible corporation in E-Commerce Place, if the eligible corporation has not created a minimum number of jobs in Québec.

To further sustain job creation in the field of e-commerce development and operation, accelerate the development of E-Commerce Place and promote foreign investment in Québec, the rate of this tax credit as well as the maximum tax credit an eligible corporation may receive regarding an eligible employee, for a taxation year, will be raised. Furthermore, the eligibility period for this tax credit and for the tax holiday available to a foreign specialist will be extended regarding certain situations. Lastly, the rental space available in E-Commerce Place will be reduced.

1.8.1 Increase in the rate and the maximum tax credit

The rate of the refundable tax credit for corporations established in E-Commerce Place, currently 25%, will be raised to 35%. As a corollary, the rate of 25% used in the formula to determine the adjusted rate of the tax credit, applicable as of the sixth year of operation of an eligible corporation in E-Commerce Place, will also rise to 35%.

13 Ministère des Finances du Québec Bulletin d'information 2000-3.

Furthermore, the maximum tax credit an eligible corporation may receive regarding an eligible employee, currently \$10 000 for a taxation year, will rise to \$12 500, on an annual basis. Accordingly, for the purposes of the tax credit, the eligible salary of an eligible employee will henceforth be limited to \$35 714.29, calculated on an annual basis.

Similarly, the denominator of the formula for determining the adjusted rate of the tax credit, applicable as of the sixth year of operation of an eligible corporation in E-Commerce Place, will also be changed in order to exclude from the payroll of an eligible corporation, for a calendar year, the portion of the salary of an eligible employee that exceeds \$35 714.29 for such calendar year.

These changes will apply regarding eligible salaries incurred by an eligible corporation after December 31, 2000. For greater clarity, the change relating to the eligible salary of an eligible employee limiting it to a maximum of \$35 714.29, calculated on an annual basis, will apply solely to eligible salaries incurred by an eligible corporation after December 31, 2000.

1.8.2 Extension of the period of eligibility for the tax credit

To further encourage corporations to move into E-Commerce Place to carry out eligible activities there, the eligibility period for this tax credit based on eligible salaries will be extended with respect to certain situations.

❑ Leases concluded in 2001, 2002 or 2003

More particularly, corporations that carry out eligible activities in E-Commerce Place following the conclusion of a lease in 2001, 2002 or 2003 may claim a tax credit regarding eligible salaries incurred for a period of ten years beginning on the date the lease is concluded. Accordingly, for corporations that conclude such leases after December 31, 2000, the eligibility period for this tax credit will be extended compared with the previous eligibility period that was to end on December 31, 2010.

❑ Leases concluded after 2003

Corporations that carry out eligible activities in E-Commerce Place following the conclusion of a lease after 2003 may claim a tax credit regarding eligible salaries incurred after the date the lease is concluded and no later than December 31, 2013, when this tax credit expires.

❑ Clarification

For greater clarity, corporations that carry out eligible activities in E-Commerce Place following the conclusion of a lease in 2000 are not affected by these changes. Accordingly, such corporations may claim a tax credit regarding eligible salaries incurred no later than December 31, 2010.

1.8.3 Extension of the period of eligibility for the tax holiday for a foreign specialist

Under existing rules, the five-year tax holiday available to a foreign specialist employed by an eligible corporation that carries out eligible activities in E-Commerce Place applies regarding any individual who commences employment as a foreign specialist with such eligible corporation after May 11, 2000 and before January 1, 2011, under an employment contract concluded after May 11, 2000.

In view of the extension of the period of eligibility for the tax credit regarding certain situations, the period during which an individual must commence employment as a foreign specialist with an eligible corporation will also be extended, for the same situations. Furthermore, the latest date of commencement of employment allowing a foreign specialist to benefit from this tax holiday will be changed to also refer to the date of conclusion of an employment contract.

❑ Leases concluded in 2000

More specifically, an individual who commences employment as a foreign specialist with an eligible corporation that carries out eligible activities in E-Commerce Place following the conclusion of a lease in 2000 may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation while it is an eligible corporation, after May 11, 2000 and before January 1, 2011.

❑ Leases concluded in 2001, 2002 or 2003

An individual who commences employment as a foreign specialist with an eligible corporation that carries out eligible activities in E-Commerce Place following the conclusion of a lease in 2001, 2002 or 2003 may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation while it is an eligible corporation, after May 11, 2000 and before the day of the tenth anniversary of the conclusion of the lease indicated above.

❑ Leases concluded after 2003

An individual who commences employment as a foreign specialist with an eligible corporation that carries out eligible activities in E-Commerce Place following the conclusion of a lease in 2003 may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation while it is an eligible corporation, after May 11, 2000 and before January 1, 2014.

1.8.4 Reduction of available rental space

The rental space available in E-Commerce Place will be reduced to 139 500 square metres.

Furthermore, E-Commerce Place will henceforth consist of buildings to be constructed on land bounded by de la Montagne, Saint-Antoine and Lucien-L'Allier streets and René-Lévesque boulevard.

1.9 Introduction of a refundable tax credit for e-business activities carried out in certain designated sites

In recent years, a number of fiscal measures have been introduced regarding designated sites, in particular E-Commerce Place and the Centre national des nouvelles technologies de Québec (CNNTQ). These measures relating to the knowledge-based economy have helped make the Montréal and Québec City regions hubs of excellence in the field of information technology.

To further stimulate the development of certain activities relating to information technologies, while encouraging companies to locate and expand in the Montréal and Québec City regions, a new refundable tax credit will be introduced regarding e-business activities carried out in certain designated sites, namely the "refundable tax credit for e-business activities".

Briefly, this tax credit will be granted, beginning in calendar year 2001, regarding the increase in payroll attributable to eligible employees of an eligible corporation that moves into designated premises in a designated site, either the Zone de commerce électronique du centre-ville de Montréal or the CNNTQ.

An eligible corporation may claim this tax credit, whose rate will be set at 35%, regarding a maximum of five consecutive calendar years.

□ Eligible corporation

Generally speaking, any corporation, other than an excluded corporation, that, during a calendar year, carries on a certified business in one of the designated sites and has an establishment there may, under certain conditions, claim the tax credit regarding such calendar year.

However, such a corporation must do business or move in to do business either in premises in the Zone de commerce électronique du centre-ville de Montréal that have been designated by the Bureau du commerce électronique, which is under the authority of the ministère des Finances, or

in premises located in the CNNTQ that have been designated by Investissement Québec.

❑ Certified business

For the purposes of this tax credit, a “certified business” means a business regarding which an eligibility certificate has been issued by the Bureau du commerce électronique, and whose activities are:

- activities involving the development and supply of products and services relating to e-business;
- activities relating to the operation of e-business solutions;
- activities of a customer-contact centre that support, at the transactions level, a sales and marketing service, featuring a technological environment making use of various media, capitalizing on the convergence of computerized telephony technologies.

For greater clarity, the activities relating to e-business described above are the same as those considered as eligible activities for the purposes of the refundable tax credit regarding E-Commerce Place. Accordingly, the guidelines issued by the Bureau du commerce électronique will be used to determine whether or not the activities carried out by a corporation established in the Zone de commerce électronique du centre-ville de Montréal or in the CNNTQ are activities involving the development and supply of products and services relating to e-business or activities relating to the operation of e-business solutions. These guidelines are available on the website of the Bureau du commerce électronique, at: www.citeducommerceelectronique.com.

Similarly, activities excluded for the purposes of the refundable tax credit relating to E-Commerce Place will not be considered activities of a certified business for the purposes of this tax credit, except as specifically provided below.

Regarding the activities of a customer-contact centre, the Bureau du commerce électronique will soon publish guidelines for determining whether or not specific activities of a business constitute activities of a customer-contact centre.

However, these activities must be carried out by an eligible corporation in designated premises in the Zone de commerce électronique du centre-ville de Montréal or in the CNNTQ.

❑ Designated site of the Zone de commerce électronique du centre-ville de Montréal

The perimeter of the Zone de commerce électronique du centre-ville de Montréal will correspond, subject to the restriction mentioned below, to the territory defined in section 1 of the *By-law concerning subsidies for the rehabilitation of lots in the downtown core*.¹⁴

Briefly, this territory is bounded by Sherbrooke, De Lorimier, De Maisonneuve and du Havre thoroughfares, the shore of the St. Lawrence River, the Victoria bridge, the Bonaventure autoroute and its extension to University street, Saint-Jacques and Guy streets, the Ville-Marie autoroute and Atwater avenue.

However, the buildings of the Cité du commerce électronique and the designated buildings of the Cité du multimédia will not be part of the Zone de commerce électronique du centre-ville de Montréal.

❑ Designated site of the CNNTQ

The CNNTQ is located in downtown Québec City. The technical description of the perimeter of the CNNTQ was released in Bulletin d'information 99-1 of June 30, 1999, and this perimeter was then extended in Bulletin d'information 2001-1 of March 1, 2001.

The existing designation of the CNNTQ will be used for the purposes of this tax credit. Furthermore, any subsequent change that may be made to this designation for the purposes of the tax credit for corporations established in the CNNTQ will also apply in relation to this tax credit.

❑ Eligibility certificate

To obtain an eligibility certificate regarding a business, an eligible corporation must show, to the satisfaction of the Bureau du commerce électronique, that the business will contribute, within what is considered a reasonable time, to the creation of a minimum of 25 full-time jobs in an establishment of the eligible corporation located in one of the designated sites. For the purposes of this criterion, the Bureau du commerce électronique may also include part-time or seasonal jobs which, taken as a whole, are the equivalent of a minimum of 25 full-time jobs. The increase in the number of days worked may also be included for the purposes of the criterion.

¹⁴ Chapter S-8.3 of the Revised By-laws of the City of Montréal.

Generally speaking, the Bureau du commerce électronique will not issue an eligibility certificate regarding a business if, in its view, such business is the continuation of a certified business or part of a certified business regarding which an eligibility certificate was previously issued. For greater clarity, the MRQ may provide the Bureau du commerce électronique with relevant information,¹⁵ so that it can adequately perform its role in this regard and thus secure the integrity of the tax credit.

However, in order not to impede the recovery of businesses, the Bureau du commerce électronique may, in some cases, such as the bankruptcy of a corporation, issue an eligibility certificate to a certified business that is the continuation of a business regarding which an eligibility certificate was issued in the past. In such a case, the expiry of the eligibility certificate will be set using the reference calendar year of the corporation that held the first certificate.

Lastly, the Bureau du commerce électronique will issue a certificate only once the eligible corporation has concluded a lease or occupies designated premises in one of the designated sites.

□ Designated premises

- **Zone de commerce électronique du centre-ville de Montréal**

Only premises located in the buildings within the Zone de commerce électronique du centre-ville de Montréal may be designated by the Bureau du commerce électronique.

The owners of the buildings concerned will be invited, as part of a call for proposals for rental space, to submit to the Bureau du commerce électronique a list of available premises and details concerning rental conditions.

The Bureau du commerce électronique will then draw up a list of premises that may be officially designated, and corporations interested in carrying out activities of a certified business in designated premises of the Zone de commerce électronique du centre-ville de Montréal may consult the list by contacting the Bureau du commerce électronique.

However, the list of premises that may be officially designated will not be drawn up solely from the list of available premises submitted to the Bureau du commerce électronique as part of the call for proposals of rental space. The owner of a building located in the Zone de commerce électronique du centre-ville de Montréal may, at any time, submit the list of available premises in his building and the details concerning leasing conditions to the Bureau du commerce électronique. The Bureau du commerce électronique

¹⁵ More specifically, such information may be provided as of the date the legislation amending certain legislative provisions in relation to the protection of confidential information is assented to.

may, if it deems appropriate, enter them on the list of premises that may be officially designated.

The Bureau du commerce électronique will designate the premises when an eligible corporation expresses its intention to conclude a lease and the owner of the building concerned satisfies the requirements, in particular with regard to technological infrastructures.

The owner-occupant of a building who otherwise carries on a certified business must also have the premises he occupies designated.

Lastly, the Bureau du commerce électronique will ensure that the total floor space of designated premises in the Zone de commerce électronique du centre-ville de Montréal does not, at any time, exceed 186 000 square metres.

- **CNNTQ**

The rules that currently apply concerning designated premises of the CNNTQ will also apply in the context of the refundable tax credit for e-business activities. In addition, the owner-occupant of a building who otherwise carries on a certified business must also have the premises he occupies designated.

For greater clarity, the introduction of this new tax credit will not give rise to an increase in the floor space currently available in the CNNTQ. Accordingly, the premises that will be designated for the purposes of this tax credit will be designated from the space currently allocated to the CNNTQ.

Investissement Québec will accordingly see that the total floor space of designated premises in the CNNTQ, excluding the floor space attributable to the CDTI de Québec, does not, at any time, exceed 47 900 square metres.

- **Eligible employee**

An “eligible employee” of an eligible corporation means an employee at least 90% of whose duties are devoted to carrying out, supervising or directly supporting the activities of the certified business carried on by the eligible corporation, and who is not a specified shareholder of the eligible corporation.

All or substantially all of the duties of such employee must be carried out either in designated premises or elsewhere but regarding mandates attributable to such establishment. For greater clarity, duties relating to general administration, such as administrative services and clerical support, are ineligible.

Lastly, the MRQ may consult the Bureau du commerce électronique to learn whether a given employee qualifies as an eligible employee. For

greater clarity, only the information needed to obtain an opinion from the Bureau du commerce électronique will be forwarded to 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, using the following formula:

$$\text{Amount of tax credit} = 35\% \times (A - B)$$

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 salary

The salary 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 benefits that must be included in calculating such employee's income.

• Reference calendar year

The reference calendar year of an eligible corporation that begins to carry on a certified business in a designated site prior to calendar year 2002 will be, with respect to such certified business, calendar year 2000.

The reference calendar year of an eligible corporation that begins to carry on a certified business in a designated site after calendar year 2001 will be, with respect to such certified business, the calendar year that precedes the calendar year during which it begins to carry on a certified business in a designated site.

For greater clarity, in the case of an eligible corporation that 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 increased.

Furthermore, if an eligible corporation has paid no wages to its eligible employees in the course of its reference calendar year, in the case of a newly formed corporation that establishes itself in a designated site for example, it may claim the tax credit depending on 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, when 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**

For the determination of the tax credit, any eligible corporation having both an establishment in a designated site and another establishment elsewhere in Québec must first calculate the increase in payroll attributable to eligible employees of the establishment located in such designated site. This amount may not exceed the total amount of the increase in payroll attributable to its eligible employees and 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 a designated site.

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 a partnership carried out in Québec, in relation to a business, decrease or cease and, by the same token, 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 a designated site.

Accordingly, with respect to the merger and winding-up of corporations, rules will be stipulated to consider 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 considered.

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

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

Moreover, associated corporations must divide among themselves the amount of the increase in payroll attributable to eligible employees, by filing an agreement to that end 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 of an establishment located in a designated site.

- **Reduction in the amount of salary 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 a designated site), 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.

In addition, this amount, for the calendar year with respect to which the tax credit is determined, must also be reduced by the amount of salaries regarding which another refundable tax credit has been granted and by the amount of salary paid to an eligible employee, for a week regarding which a tax credit for on-the-job training periods has or will be granted in regard 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.

- **Specific case of eligible employees of a corporation established in the CNNTQ**

Some activities that are currently eligible activities for the purposes of the tax credit for corporations established in the CNNTQ may constitute activities of a certified business for the purposes of the refundable tax credit for e-business activities. An eligible corporation may accordingly choose to claim either the tax credit for corporations established in the CNNTQ, or this refundable tax credit.

According to the current terms and conditions of the tax assistance for a corporation established in the CNNTQ, an eligible corporation may obtain an eligibility certificate from Investissement Québec regarding a foreign specialist, who may then benefit from a five-year tax holiday. In such a case, the eligible salaries of eligible employees of the business or part of the business in which such a specialist works may not be considered in calculating this refundable tax credit for the calendar year or portion of the calendar year covered by the eligibility certificate issued regarding such specialist.

Furthermore, the salaries paid to an employee regarding whom an eligibility certificate has been issued by Investissement Québec for the purposes of the tax credit for corporations established in the CNNTQ may not be included in the payroll attributable to eligible employees of an eligible corporation for the purposes of the refundable tax credit for e-business activities.

❑ Other application details

If a wage 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. Such will also be the case if the eligibility certificate issued in relation to a certified business regarding which a tax credit has been granted is revoked by the Bureau du commerce électronique.

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

To receive 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 as well as a copy of the eligibility certificate issued by the Bureau du commerce électronique regarding its certified business.

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.

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

❑ Excluded corporation

An “excluded corporation” for 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.

❑ Eligibility period for the tax credit

Generally speaking, the tax credit will be granted to an eligible corporation regarding five consecutive calendar years beginning with the one, after 2000, during which a certified business begins to be carried on in a designated site.

However, in order to receive this tax credit for five calendar years, an eligible corporation must begin to carry on a certified business no later than during calendar year 2009.

If an eligible corporation begins to carry on a certified business during a calendar year subsequent to 2009, the corporation may receive the tax credit only for the period from such year to calendar year 2013 inclusive. For instance, an eligible corporation that begins to carry on a certified business in 2011 could claim a refundable tax credit for a maximum of three calendar years.

1.10 Extension of the eligibility period for tax assistance relating to certain designated sites

1.10.1 Tax assistance relating to the knowledge-based economy

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. This applies to, for example, the measures 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), new economy centres (CNEs) and E-Commerce Place.

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. The Centre de développement des biotechnologies de Laval, which is considered a CDTI for the purposes of these fiscal measures, is dedicated exclusively to activities in the biotechnology sector. The Centre de développement des biotechnologies de Laval was created in the March 29, 2001 Budget Speech.

Briefly, a corporation that carries out an innovative project in a CDTI may claim a five-year tax holiday regarding income tax, the tax on capital and the employer contribution to the 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. Furthermore, a foreign specialist employed by such a corporation may receive, for five years, an exemption from tax on his income from such employment. Lastly, a corporation that carries out an innovative project in the biotechnology sector in the Centre de développement des biotechnologies de Laval may claim a refundable tax credit regarding eligible rent expenses relating to short-term rental of eligible specialized installations during the five-year tax holiday.

The measures relating to the Cité du multimédia were introduced on June 15, 1998, while those relating to the CNNTQ and the CNEs were brought forward in the March 9, 1999 Budget Speech. Briefly, the tax assistance specifically applicable to these designated sites enables a corporation to claim a refundable tax credit for eligible 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 enjoy, 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 there in the new information and communications technology field.

Lastly, the measures relating to E-Commerce Place were introduced on May 11, 2000. The specific situation of corporations that carry out eligible activities in E-Commerce Place is dealt with separately in the sub-section "Adjustments to the refundable tax credit relating to E-Commerce Place," that deals specifically with the adjustments to this fiscal measure.

According to the current tax rules, a corporation that carries out an innovative project in a CNE or a CDTI, which includes the Centre de développement des biotechnologies de Laval, may receive, at least until December 31, 2010, a tax credit regarding the eligible salaries incurred during the period concerned. In addition, a corporation that becomes eligible for this tax measure after December 31, 2007 may claim a tax credit regarding wages incurred during the first three years of its tax holiday.

A corporation that moves into the Cité du multimédia, the CNNTQ or a CNE and, in the latter case, that does not carry out an innovative project, may, if it satisfies the other conditions otherwise stipulated, claim a tax credit regarding the eligible salaries incurred no later than December 31, 2010.

□ Three-year extension of the tax credits regarding salaries

To further encourage corporations to move into designated sites in Québec to carry out eligible activities therein, the eligibility periods for these tax credits based on eligible salaries will be extended with respect to certain situations.

- **Leases concluded in 2001, 2002 or 2003**

More particularly, corporations that carry out eligible activities in one of these designated sites following the conclusion of a lease in 2001, 2002 or 2003 may claim a tax credit regarding the eligible salaries incurred for a period of ten years beginning on the date the lease is concluded. Accordingly, corporations that conclude such leases after January 1, 2001 may enjoy an extension of the eligibility period for these tax credits

compared with the previous eligibility period that was to end on December 31, 2010.

- **Leases concluded after 2003**

Corporations that carry out eligible activities in one of these designated sites following the conclusion of a lease after 2003 may claim a tax credit regarding the eligible salaries incurred after the date the lease is concluded and no later than December 31, 2013, when these tax credits, except those relating to an innovative project carried out in a CNE or a CDTI, expire.

- **Clarifications**

Accordingly, in the specific case of corporations that carry out an innovative project in a CNE or a CDTI, including the Centre de développement des biotechnologies de Laval, following the conclusion of a lease after December 31, 2010, such corporations may, as was the case for those that become eligible after December 31, 2007 for the tax credit regarding eligible salaries, continue to claim a tax credit regarding the eligible salaries incurred following the date the lease was concluded for a period of three years, i.e. during the first three years of their tax holiday.

For greater clarity, corporations that carry out eligible activities in one of these designated sites following the conclusion of a lease prior to 2001 are not affected by these changes. Accordingly, such corporations may claim a tax credit regarding the eligible salaries incurred no later than December 31, 2010.

- **Extension of the period of eligibility for the tax holiday for a foreign specialist**

Under existing rules, the five-year tax holiday available to a foreign specialist employed by an eligible corporation that carries out eligible activities in the Cité du multimédia, the CNNTQ or a CNE and, in the latter case, that does not carry out an innovative project, applies regarding any individual who commences employment as a foreign specialist with such an eligible corporation, after March 14, 2000 and before January 1, 2011, under an employment contract concluded after March 14, 2000.

In view of the extension of the period of eligibility for the tax credit regarding certain situations, the period during which an individual must commence employment as a foreign specialist with an eligible corporation will also be extended, for the same situations. Furthermore, the latest date of commencement of employment allowing a foreign specialist to benefit from this tax holiday will be changed to also refer to the date of conclusion of an employment contract.

- **Leases concluded before 2001**

More specifically, an individual who commences employment as a foreign specialist with an eligible corporation that carries out eligible activities in the Cité du multimédia, the CNNTQ or a CNE and, in the latter case, that does not carry out an innovative project, following the conclusion of a lease before 2001, may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation while it is an eligible corporation, after March 14, 2000 and before January 1, 2011.

- **Leases concluded in 2001, 2002 or 2003**

An individual who commences employment as a foreign specialist with an eligible corporation that carries out eligible activities in the Cité du multimédia, the CNNTQ or a CNE and, in the latter case, that does not carry out an innovative project, following the conclusion of a lease in 2001, 2002 or 2003, may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation while it is an eligible corporation, after March 14, 2000 and before the day of the tenth anniversary of the conclusion of the lease indicated above.

- **Leases concluded after 2003**

An individual who commences employment as a foreign specialist with an eligible corporation that carries out eligible activities in the Cité du multimédia, the CNNTQ or a CNE and, in the latter case, that does not carry out an innovative project, following the conclusion of a lease after 2003, may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation while it is an eligible corporation, after March 14, 2000 and before January 1, 2014.

- **Clarification**

For greater clarity, an individual who commences employment as a foreign specialist with an eligible corporation that carries out an innovative project in a CNE or a CDTI, including the Centre de développement des biotechnologies de Laval, is not affected by these changes since no cut-off date is stipulated regarding these measures.

1.10.2 Tax benefits relating to the Mirabel Zone

Briefly, corporations that carry on a business within the Montréal Foreign Trade Zone at Mirabel (Mirabel Zone), in the fields of international logistics, aircraft maintenance and repair, supplementary professional training in aviation or light manufacturing, or a business that, in the view of the Minister of Finance, is of particular interest for Québec's economy, receive tax benefits, until December 31, 2010, consisting of an exemption from income tax, an exemption from the tax on capital and an exemption from the employer contribution to the HSF.

These corporations may also claim, during the same period, tax benefits consisting of refundable tax credits for the wages incurred regarding their eligible employees, the fees incurred regarding an eligible customs brokerage contract and the acquisition expenses or rent paid for eligible equipment.

Lastly, a corporation that carries on a business in Québec and has an establishment here, and constructs or has constructed a strategic building within the territory of the Mirabel Zone for which the construction work starts before January 1, 2011 receives a refundable tax credit regarding the eligible construction expenses it incurs during a taxation year for the construction of a strategic building.

Furthermore, to help corporations that carry on an eligible business in the Mirabel Zone to recruit specialized foreign employees in the fields of activity of these businesses, a five-year tax holiday is granted to such employees who settle in Québec to hold a job here with an eligible business in the Mirabel Zone.

❑ Three-year extension of the tax benefits relating to the Mirabel Zone

To further encourage corporations to move into the Mirabel Zone to carry on an eligible business, the eligibility period for the tax benefits relating to the Mirabel Zone will be extended regarding certain situations.

- **Eligibility certificate of the business taking effect in 2001, 2002 or 2003**

More specifically, the tax legislation will be amended, regarding a corporation that carries on a business within the Mirabel Zone and regarding which the eligibility certificate issued by the Minister of Finance takes effect during 2001, 2002 or 2003, so that:

- the exemptions from income tax, the tax on capital and the employer contribution to the FSS are extended until the day of the tenth anniversary of the effective date of the business's eligibility certificate issued by the Minister of Finance (the anniversary day);

- the wages incurred by the corporation, regarding an eligible employee, before the anniversary day, give rise to the refundable tax credit on the wages of eligible employees;
- the fees incurred by the corporation regarding an eligible customs brokerage contract, before the anniversary day, give rise to the refundable tax credit for an eligible customs brokerage contract;
- the assets acquired by the corporation before the anniversary day, or the rent it paid in a taxation year, under a contract concluded before the anniversary day, give rise to the refundable tax credit covering the acquisition or leasing of eligible equipment;
- the eligible construction expenses of a strategic building incurred by the corporation in a taxation year, if the construction work on such strategic building began before the anniversary day, give rise to the refundable tax credit for the construction of a strategic building.

For greater clarity, concerning the refundable tax credit on the wages of eligible employees and the refundable tax credit for an eligible customs brokerage contract, the periods associated with the various rates and maximum amounts applicable to these refundable tax credits are not changed, with the exception of the extension of the last period that currently ends on December 31, 2010.

- **Eligibility certificate of the business taking effect after 2003**

In the case of a corporation that carries on a business within the Mirabel Zone regarding which the eligibility certificate issued by the Minister of Finance becomes effective after 2003, the tax legislation will be amended so that the period stipulated for each exemption and for each refundable tax credit, described above, is extended until December 31, 2013.

- **Clarification**

For greater clarity, a corporation that carries on a business within the Mirabel Zone regarding which the eligibility certificate issued by the Minister of Finance became effective prior to 2001 is not affected by these changes.

- **Extension of the period of eligibility for the tax holiday for a foreign specialist**

Under existing rules, specialized foreign employees in certain fields who are employed by an employer who carries on a business regarding which the Minister of Finance issued an eligibility certificate for the purposes of the tax benefits of the Mirabel Zone enjoy a complete tax exemption, for five years, consisting of a deduction in calculating their taxable income.

In view of the extension of the eligibility period for tax benefits of the Mirabel Zone regarding certain situations, the period during which an individual must conclude an employment contract or commence employment as a foreign specialist with a corporation that carries on an eligible business in the Mirabel Zone will also be extended, for the same situations.

- **Eligibility certificate of the business taking effect in 2001, 2002 or 2003**

More specifically, an individual who commences employment as a foreign specialist with a corporation that carries on a business within the Mirabel Zone and regarding which the eligibility certificate issued by the Minister of Finance becomes effective during either 2001, 2002 or 2003 may enjoy this five-year tax exemption only if he concludes an employment contract with such corporation or if he commences employment as a foreign specialist with it on or after the day that the eligibility certificate of such business becomes effective and before the day of the tenth anniversary of the effective date of such eligibility certificate.

- **Eligibility certificate of the business taking effect after 2003**

An individual who commences employment as a foreign specialist with a corporation that carries on a business within the Mirabel Zone and regarding which the eligibility certificate issued by the Minister of Finance becomes effective after 2003 may enjoy this five-year tax exemption only if he concludes an employment contract with such corporation or if he commences employment as a foreign specialist with it on or after the day that the eligibility certificate of such business becomes effective and before January 1, 2014.

- **Clarification**

For greater clarity, an individual who commences employment as a foreign specialist with a corporation that carries on a business within the Mirabel Zone and regarding which the eligibility certificate issued by the Minister of Finance became effective during 2000 is not affected by these changes. Accordingly, an individual who commences employment as a foreign specialist with such an eligible corporation may enjoy this five-year tax exemption only if he concludes an employment contract with such corporation or if he commences employment as a foreign specialist with it on or after the day that the eligibility certificate of such business becomes effective and before January 1, 2011.

1.10.3 Refundable tax credit for the Cité de l'optique

A refundable tax credit for the Cité de l'optique was announced on June 30, 1999.¹⁶ This tax credit is granted regarding the increase in payroll attributable to production or commercialization employees of an eligible corporation operating in the optics, photonics or laser sector, in the Québec City region.

In general, for the purposes of this tax credit, a corporation must carry on, in the Québec City region, a business manufacturing or commercializing apparatus or equipment relating to the optics, photonics or laser sector. Such a business means, in particular, a business whose activities consist in manufacturing, in whole or in part, apparatus or equipment in this field and, incidentally, as the case may be, commercializing them.

The rate of this refundable tax credit, regarding a given calendar year, is 40%. Briefly, this rate is applied to the amount by which the salaries paid by the eligible corporation to its eligible employees for the calendar year exceeds the salaries paid to eligible employees during the preceding calendar year. This measure applies regarding calendar years 1999 to 2003.

To further encourage new corporations operating in these sectors to come to the Québec City region, the application of this tax credit will be extended by three years, i.e. until 2006 inclusive.

1.10.4 Refundable tax credit for the Technopôle Angus

In the March 14, 2000 Budget Speech, a refundable tax credit was introduced, for a period of four calendar years starting January 1, 2000, regarding the increase in payroll attributable to production or commercialization employees of an eligible corporation operating either in the field of manufacturing or processing goods, or in the environmental field.

This tax assistance is granted to businesses that move into the site of the former Angus shops, within the territory of the City of Montréal, and is designed to offset the costs relating to the apprenticeship period of new employees of such businesses.

The rate of this refundable tax credit, regarding a given calendar year, is 40%. Briefly, this rate is applied to the amount by which the salaries paid by the eligible corporation to its eligible employees for the calendar year exceeds the salaries paid to eligible employees during the preceding calendar year. This measure applies regarding calendar years 2000 to 2003.

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

In view of the success of this tax credit and the resulting benefits, not only for the businesses that have moved into these shops and the employees working there but also for the revitalization of this sector of the Island of Montréal, its application will be extended for three years, i.e. until 2006 inclusive.

1.10.5 Refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain

In the March 29, 2001 Budget Speech, a refundable tax credit was introduced for a period of five calendar years starting on January 1, 2001 regarding the increase in payroll attributable to manufacturing or commercialization employees of an eligible corporation operating in the field of biotechnology and human health. The tax assistance is granted to businesses that move into the Parc scientifique et de haute technologie de Laval and is designed to offset the costs relating to the apprenticeship period of new employees of businesses operating in the field of biotechnology and human health.

The rate of this refundable tax credit, regarding a given calendar year, is 40%. Briefly, this rate is applied to the amount by which the salaries paid by the eligible corporation to its eligible employees for the calendar year exceeds the salaries paid to eligible employees during the preceding calendar year. This measure applies regarding calendar years 2001 to 2005.

To further bolster the growth and reputation of businesses in the field of biotechnology and human health that have moved into the Parc scientifique et de haute technologie de Laval, this tax credit will be extended for one year, i.e. until 2006.

1.11 Increase in total available floor space of CNEs

As previously mentioned, the measures relating to CNEs were introduced in the March 9, 1999 Budget Speech. Briefly, a CNE designates a grouping of certain businesses carried on within an available floor space granted to each region of Québec. In a given region, the same CNE may be established in more than one urban centre, according to the region's needs.

The total floor space available to CNEs was initially 45 000 square metres, but that has been gradually increased to 100 000 square metres.¹⁷

Because of the success of this tax measure and to enable more corporations to benefit from it, the total available floor space of CNEs for all regions of Québec will be increased once again, this time to 125 000 square metres.

17 Ministère des Finances du Québec Bulletins d'information 2000-5 and 2001-6.

Investissement Québec will assume the responsibilities of designating buildings and floor space attributable to each region. Accordingly, it will see that the total floor space of the designated buildings, for all regions of Québec, does not exceed, at any time, 125 000 square metres. In addition, Investissement Québec will give preference to expanding and consolidating existing CNEs, rather than creating more.

Lastly, it should be specified that this overall floor space does not include the portions of the floor space of the CDTIs in Hull, Laval,¹⁸ Montréal, Sherbrooke and Québec City that may be used to house corporations that wish to carry out activities eligible for the tax assistance applicable to CNEs.

1.12 Adjustment to the five-year tax holidays granted to certain foreign employees

To foster the recruitment of foreigners with expertise in specialized activity sectors, the tax legislation provides for tax exemptions so as to encourage such individuals to come to work in Québec.

Foreign researchers and experts 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 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, benefit from a tax exemption on their salary consisting of a deduction in the calculation of their taxable income for a maximum of five years.

Foreign researchers who come to Québec on a postdoctoral fellowship to do research work with an eligible university entity or an eligible public research centre for the purposes of the refundable R&D tax credit, as well as foreign professors specializing in certain fields who come to Québec to hold a job with a Québec university in that field, benefit from a similar tax exemption.

Also, foreign employees specializing in certain fields who hold a job with an employer who carries on a business recognized as an international financial centre (IFC), a stock exchange or a securities clearing-house corporation, or an eligible business in the Mirabel Zone benefit from a full tax exemption consisting of a deduction in the calculation of their taxable income for a maximum of five years.

All of the above tax exemptions are subject to a common eligibility condition, i.e. foreign employees must not have resided in Canada immediately prior to either concluding their employment contract or taking up their duties.

18 The CDTI de Laval and the Centre de développement des biotechnologies de Laval, since the latter is considered a CDTI for the purposes of the tax measures.

However, the current rules provide for an exception to the non-residency eligibility condition to allow foreign employees to change employers during the five-year period of the specific tax exemption granted to them, provided their new employer is an eligible employer for the purposes of such tax exemption.

However, if a foreign employee changes employers to take up a new job that is also eligible for a tax exemption designed to foster the recruitment of foreign employees, but that tax exemption is different from the one granted in respect of his previous job—for example, if the employee benefited from the tax exemption for foreign researchers performing R&D work and he changes jobs to work as a specialist in a CDTI—he may not claim the tax exemption for his new job for the remainder the five-year exemption period, because he resided in Canada immediately prior to concluding the new employment contract or taking up his new duties.

Since these tax measures are designed to enable Québec employers to recruit specialized employees more easily, they will be relaxed so as to enable foreign employees to change employers and still benefit from a tax exemption that is different from the one they claimed for the job they held with their previous employer.

More specifically, for the purposes of all of the above-mentioned tax exemptions, the tax legislation will be amended so that a person will be considered not to reside in Canada at a given time if, prior to that time, he held a job for which he claimed one of these tax exemptions and he did not reside in Canada immediately prior to either concluding the employment contract for that job or commencing that job.

For greater clarity, the other eligibility conditions otherwise applicable to the tax exemption respecting a new job must be met as of the date on which the person concludes the employment contract for the new job or commences the new job. In particular, a qualification certificate must be issued in respect of the employee by the proper authorities and the total duration of these tax exemptions will remain five years, beginning on the day the employee starts benefiting from one of these tax exemptions, even if he changes employers during this period.

This change will apply as of January 1, 2001.

1.13 Scientific research and experimental development

1.13.1 Technical clarification regarding certain types of sub-contracts for university R&D activities

Generally speaking, taxpayers who enter into a university research contract with an eligible university entity regarding R&D are eligible for a refundable tax credit equal to 40% of 80% of the amount of an eligible expenditure paid to that entity. In this regard, an eligible university entity notably includes a Québec university.

Under the applicable legislative provisions, an eligible university entity that enters into this type of contract must itself perform the R&D work contemplated by the contract, with certain exceptions.

Due, in particular, to the administrative structure of Québec universities and to their concerns regarding intellectual property related to R&D work, situations may arise where, for example, a Québec university enters into a research contract with a private sector enterprise and the work contemplated by the contract is carried out by an affiliated prescribed university hospital medical research centre rather than by the university itself.

To prevent the refundable tax credit from being lost in this kind of situation because the research contract does not qualify as a university research contract, a clarification will be made to the tax legislation so that the sub-contracted portion of a research contract entered into by an eligible university entity is considered to be part of a university research contract.

More specifically, the tax legislation will be amended such that a given eligible university entity is deemed to itself perform the R&D work contemplated by a research contract that is contracted out to another eligible university entity that is affiliated with this given eligible university entity; for example, where a Québec university contracts out all or part of the R&D work contemplated by a university research contract to an affiliated prescribed university hospital medical research centre.

The application for an advance ruling on this university research contract must identify the other eligible university entity that is to perform R&D work contemplated by the university research contract. It must also specify that part of the R&D work contemplated by the contract which will be performed by this other eligible university entity and demonstrate that the given eligible university entity maintains general control over the carrying out of the R&D work provided for in the contract.

This amendment will apply to university research contracts for which an advance ruling is handed down after the day of the Budget Speech, provided that the deadline for submitting the prescribed form for claiming the tax credit for a university research contract has not expired.

For greater clarity regarding cases where an eligible university entity, an eligible public research centre or an eligible research consortium (recognized organizations), as the case may be, undertakes jointly with another recognized organization or another person to perform the R&D work contemplated by a research contract, such research contract qualifies as a university research contract or an eligible research contract, as the case may be, solely if the portion of the R&D work which is to be performed by each recognized organization and each person, as the case may be, who undertakes jointly to perform this work is clearly stipulated in the research contract.

1.13.2 Designation of a new eligible public research centre

Taxpayers are currently entitled to a refundable tax credit of 40% for R&D activities carried out by an eligible public research centre under an eligible research contract entered into with such a centre.

The Institut universitaire de gériatrie de Sherbrooke will be recognized as an eligible public research centre. This recognition will apply to R&D carried out after November 30, 2000, under an eligible research contract entered into after said date.

1.14 Adjustments to the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market

Temporary tax assistance designed to foster the participation of investment dealers on the Nasdaq stock market (Nasdaq Canada) was introduced on April 9, 2001.¹⁹

Briefly, this tax assistance consists of a refundable tax credit that has three components, the first covering administrative expenses, the second covering the acquisition and leasing of technological equipment, and the third covering the hiring and training of personnel. The maximum cumulative amount of eligible expenditures is \$50 000 for the first component, \$200 000 for the second, and \$100 000 for the third.

To foster greater participation of investment dealers in Nasdaq Canada as well as ensure that Nasdaq Canada's establishment in Montréal is as successful as possible, the application period for this tax credit will be extended, a new component will be added and technical changes will be made.

¹⁹ Ministère des Finances du Québec Bulletin d'information 2001-3.

1.14.1 Extension of the tax credit application period

Under the current rules applicable to the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market, eligible expenditures, except certain rental expenses, must be incurred before January 1, 2002.

To ensure optimum participation of investment dealers in Nasdaq Canada and to recognize the considerable costs involved, application of this tax credit will be extended another two years, until December 31, 2003.

The rules respecting the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market will thus be changed so that the tax credit applies to eligible expenditures incurred by an eligible corporation after April 26, 2000 and before January 1, 2004, in relation to eligible activities carried out by such corporation during such period.

However, in the specific case of the acquisition or leasing of technological equipment component, the tax credit will apply to rent constituting an eligible expenditure incurred by an eligible corporation during a maximum period of 730 days, under a lease entered into after April 26, 2000 and before January 1, 2004, in relation to eligible activities carried out by such corporation during such period of 730 days.

1.14.2 Introduction of a new component

Nasdaq Canada is an entirely electronic stock market whose efficiency depends largely on the performance of the technological equipment used by participating investment dealers.

To optimize their participation in Nasdaq Canada, investment dealers use, in particular, technological equipment that enables them to carry out, manage and monitor transactions in accordance with the regulatory standards applicable to Nasdaq Canada, and to integrate these activities with their administrative operations. However, this equipment requires considerable investment on the part of participating dealers. Moreover, Nasdaq Canada's successful establishment in Montréal also partly depends on participating investment dealers' use of such technological equipment.

To encourage participating investment dealers to use this type of technological equipment, which normally includes electronic communications equipment, software, software user licences and dedicated electronic connections, while fostering the establishment of Nasdaq Canada in Montréal, a new component to the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market will be introduced.

More specifically, the tax credit eligible corporations will be able to claim under this component will be equal to 50% of the amount of eligible expenditures they incur in relation to eligible activities they carry out in their establishments located in Québec.

□ Eligible expenditures

For the purposes of this component, the expression “eligible expenditure” means the cost relating to the installation and maintenance of an eligible transaction management system.

The expression “eligible transaction management system” means a transaction management system:

- consisting of electronic communications equipment, software, software user licences and dedicated electronic connections used for the carrying out, management and monitoring of transactions in accordance with the regulatory standards applicable to the Nasdaq Canada stock market and enabling integration of these activities with the administrative operations of the eligible corporation;
- used as part of eligible activities carried out by an eligible corporation; and
- in respect of which the Minister of Finance has issued an eligibility certificate.

Furthermore, the equipment acquired or leased must be installed in the establishment of the eligible corporation located in Québec where the eligible activities are carried out. In addition, the equipment must satisfy the following conditions:

- if acquired by the eligible corporation, the equipment must be maintained in the establishment of the eligible corporation located in Québec for a minimum period of 730 days;
- if the equipment is leased by the eligible corporation, the lease must be entered into before January 1, 2004 and only the rent paid by the eligible corporation during the first 730 days of the lease, provided such rent is otherwise eligible as a deduction in calculating the income of the eligible corporation and does not cover the leasing of dedicated electronic connections or software user licences, will constitute an eligible expenditure;

- if the rental is related to the leasing of dedicated electronic connections or software user licences (royalties), only the rent and royalties paid by the eligible corporation for a rental period between the day of the Budget Speech and January 1, 2004, provided such rent and royalties are otherwise eligible as a deduction in calculating the income of the eligible corporation, will constitute an eligible expenditure;
- except for electronic communications equipment acquired or leased directly from the National Association of Securities Dealers, or one of its subsidiaries, before being acquired or leased by the eligible corporation, it was neither used for any purpose nor acquired to be used or leased for any purpose whatsoever;
- it will begin to be used within a reasonable time after its acquisition or lease date;
- it will be used in a proportion of at least 90% to carry out eligible activities of the eligible corporation.

❑ Cap on eligible expenditures

The amount of eligible expenditures incurred by an eligible corporation under this component will be limited to \$300 000, calculated on a cumulative basis, and must be reduced by the amount of any government assistance, any non-government assistance and any profit or gain, according to the usual rules.

❑ Interaction with the acquisition or leasing of technological equipment component

Expenditures relating to a transaction management system in respect of which the Minister of Finance has issued an eligibility certificate will not constitute eligible expenditures for the purposes of the acquisition or leasing of technological equipment component.

❑ Other application details

An eligible corporation that wishes to claim this tax credit, for a taxation year, must enclose with its tax return, for such year, a copy of the eligibility certificate issued by the Minister of Finance regarding the eligible transaction management system for which the tax credit is claimed.

In addition, all other terms respecting application of the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market will also apply to this component.

❑ Application dates

This measure will apply to eligible expenditures incurred by an eligible corporation after the day of the Budget Speech and before January 1, 2004, in relation to eligible activities carried out by such corporation during such period.

In the specific case of leasing of electronic communications equipment, except for the leasing of a dedicated electronic connection and the royalties paid in respect of a software user's licence, this measure will apply to the rent constituting an eligible expenditure incurred by an eligible corporation, for a period of 730 days, under a contract concluded after day of the Budget Speech and before January 1, 2004, in relation to eligible activities carried out by such corporation during such period of 730 days.

1.14.3 Technical changes

❑ Clarification regarding eligible corporation status

Under the current rules governing the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market, an "eligible corporation," for a taxation year, means a corporation that, among other conditions, is registered with the Commission des valeurs mobilières du Québec (CVMQ) as an investment dealer.

The *Securities Act* provides for certain conditions under which an investment dealer is exempt from registration with the CVMQ as a dealer.

To enable investment dealers to whom the CVMQ has granted an exemption from registration to benefit from the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market, the eligibility criteria for this tax credit will be changed so that a corporation that has been granted such an exemption from registration by the CVMQ and that otherwise satisfies all the criteria enabling it to qualify as an eligible corporation may also qualify as an eligible corporation.

This change will apply by declaration.

❑ Streamlining of certain expenditures

In order to constitute an eligible expenditure for purposes of the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market, an expenditure must notably be incurred by an eligible corporation. However, in order to qualify as an eligible corporation for a taxation year, a corporation must notably maintain, during that taxation year, an establishment in Québec where it carries out eligible activities.

As a result of these requirements, an expenditure that could otherwise constitute an eligible expenditure if it were incurred by an eligible corporation may not qualify as an eligible expenditure if, for the taxation year during which the expenditure is incurred, the corporation that incurs it does not maintain an establishment in Québec where it carries out eligible activities.

To take into consideration certain expenditures incurred by such corporation during a taxation year prior to the taxation year during which it qualified as an eligible corporation for purposes of the tax credit, the rules respecting the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market will be streamlined.

More specifically, the rules will be changed so that an expenditure that otherwise constitutes an eligible expenditure under the administrative expenses component or under the personnel hiring and training component may constitute an eligible expenditure of an eligible corporation for a taxation year if the eligible corporation can demonstrate, to the MRQ's satisfaction, that, despite the fact that it incurred the expenditure during a taxation year prior to the taxation year during which it qualified as an eligible corporation, the expenditure was incurred for the sole purpose of carrying out eligible activities in an establishment located in Québec during a taxation year after the taxation year during which the expenditure was incurred.

This change will apply to eligible expenditures incurred by an eligible corporation after April 26, 2000 and before January 1, 2004, in relation to eligible activities it carried out during such period.

1.15 Clarification concerning the territorial reach of certain tax assistance measures applicable to the financial sector

The rules applicable to certain tax assistance measures, particularly the rules relating to IFCs and those designed to support the development of stock exchanges and securities clearing-house corporations in Montréal, require that, among other conditions, activities eligible for any of these tax assistance measures be carried out in the territory of the City of Montréal.

However, under the municipal reorganization plan for the Island of Montréal, the boundaries of the City of Montréal will be modified as of January 1, 2002.

To take into consideration the new makeup of the City of Montréal and to provide taxpayers who are eligible for these assistance measures with greater flexibility in selecting the site of their activities, the territory of the City of Montréal currently considered for the purposes of these tax measures will be changed.

More specifically, for the purposes of the IFC program and the tax measures to support the development of stock exchanges and securities clearing-house corporations in Montréal, after December 31, 2001, the territory of the City of Montréal will mean the territory included within the new boundaries of the City of Montréal.

1.16 Measures concerning culture

1.16.1 Refundable tax credit for Québec film and television production

The refundable tax credit for Québec film and television production covers labour expenditures incurred by a corporation that produces a Québec film, within the meaning of the *Regulation respecting the recognition of a film as a Québec film*. This tax credit generally corresponds to 33⅓% of eligible labour expenditures incurred to produce the film.

A number of changes have been made to this tax credit in the past two years, notably for the purpose of reducing the associated risk of non-compliance and streamlining the calculation rules. The terms of application of some of these changes as well as the productions contemplated by them will be adjusted.

□ Clarification concerning the filing of an application for final certification

Changes to the criteria for recognition of a film as a Québec film were introduced on June 29, 2000.²⁰

More specifically, a deadline for filing an application for final certification was introduced. Henceforth, an application for final certification regarding a Québec film or television production must be filed with the Société de développement des entreprises culturelles (SODEC) within the 12 months following the date of recording the master tape or trial print of such production.

Since a corporation may claim a refundable tax credit regarding a Québec film or television production for which SODEC has issued a favourable advance ruling, the introduction of a deadline was essentially aimed at offering SODEC a tool for forcing the corporation to file an application for final certification in order to decide on the production's compliance.

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

However, in some cases, this new rule may result in denial of entitlement to the tax credit for a given property if an advance ruling has not been issued for such property and the application for final certification is filed with SODEC more than 12 months following the date of recording the master tape or trial print of such property.

Since it was not the government's intention to deny entitlement to the refundable tax credit for Québec film and television production as a result of the changes announced on June 29, 2000, a clarification will be made concerning the rules regarding the filing of an application for final certification.

Thus, an application for final certification regarding a Québec film or television production may be filed with SODEC more than 12 months following the date of recording the master tape or trial print of such production if no application for an advance ruling has previously been filed with SODEC for such production.

This change will apply retroactively to June 29, 2000.

□ Choice of calculation method

Changes were made to the refundable tax credit for Québec film and television production on July 5, 2001 for the purpose of simplifying the calculation.²¹ In general, the cap based on production expenses was retained, but the components of production expenses were redefined. In addition, the rate of the cap based on production expenses was raised to 50%.

The changes announced on July 5, 2001 had a carry-over effect by applying solely to productions for which an application for an advance ruling was filed with SODEC after August 31, 2001. This deferral was essentially aimed at preventing productions that began before the new rules were introduced from being penalized by enabling them to benefit from the previous rules.

However, for the purposes of obtaining interim financing from a financial institution, some production companies filed an application for an advance ruling with SODEC between July 5, 2001 and August 31, 2001, in hopes of benefiting from the changes introduced on July 5 for the purposes of calculating the refundable tax credit for Québec film and television production.

In this context, enabling an eligible corporation to benefit from the new calculation rules applicable to a film or television production for which an application was filed between July 5, 2001 and August 31, 2001 does not go against the aim of the fiscal policy.

21 Ministère des Finances du Québec Bulletin d'information 2001-6.

Consequently, an eligible corporation that filed an application for an advance ruling between July 5, 2001 and August 31, 2001 may use either of the two methods for calculating the refundable tax credit for Québec film and television production regarding the production contemplated by such application.

1.16.2 Clarification concerning coordination of certain refundable tax credits relating to the cultural field

As of October 20, 2000, there is a maximum time limit for filing an application for final certification with SODEC for the purposes of claiming the refundable tax credits for dubbing, shows, sound recordings and book publishing.²²

Like the refundable tax credit for Québec film and television production, the introduction of a deadline was essentially aimed at offering SODEC a tool for forcing corporations to file an application for final certification in order to decide on the compliance of the property for which a favourable advance ruling has been issued. Since an eligible corporation can claim a refundable tax credit for a production that has been dubbed, for a show, a sound recording, a work or group of works for which a favourable advance ruling has been issued, a corporation could delay filing an application for final certification for such property if there were no deadline.

However, once again, a deadline for filing an application for final certification may result in denial of entitlement to the tax credit for a given property if an advance ruling has never been issued for such property and the application for final certification is filed with SODEC more than 12 months following the prescribed application date for a production that has been dubbed, a show, a sound recording, a work or group of works.

Since it was not the government's intention to deny entitlement to the refundable tax credit for dubbing, shows, sound recordings and book publishing as a result of the change announced on October 20, 2000, a similar clarification to the one described in relation to the refundable tax credit for Québec film and television production will be made concerning the rule regarding the time limit for filing an application for final certification for the purposes of these tax credits.

The changes will apply as follows:

- in the case of a production that has been dubbed, to such a production for which the dubbed master tape was completed only after October 20, 2000;

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

- in the case of a show, to such a show regarding one of the three periods for which a tax credit may be claimed, if such period ended only after October 20, 2000;
- in the case of a sound recording, to such a recording for which the master tape was completed only after October 20, 2000;
- in the case of a work or a group of works, to such a work or group of works for which the first printing or the first printing of the last printed work, as the case may be, was completed only after October 20, 2000.

2. OTHER FISCAL MEASURES

2.1 Increase in the exemptions granted for determining premiums under the prescription drug insurance plan

The basic prescription drug insurance plan introduced by the Québec government ensures all Quebecers fair access to the medication required by their state of health. Coverage under this plan is provided by the Régie de l'assurance maladie du Québec (RAMQ), or by insurers transacting group insurance or administrators of private-sector employee benefit plans.

As a rule, all persons whose coverage is provided by RAMQ in a given year must, in filing their income tax return for that year, pay a premium to finance the Québec prescription drug insurance plan, of which they are beneficiaries. However, to take each person's ability to pay into account, deductions are granted in calculating this annual premium. The level of these deductions is set, notably, to exempt from paying the annual premium a person or a couple who receives the maximum amount of guaranteed income supplement from the federal government.

To adhere to the principle of taking each person's ability to pay into account in determining the amount of the premiums that must be paid to finance the Québec prescription drug insurance plan, adjustments must be made to the amounts of the deductions used to calculate the premiums payable for 2001. The following table shows the deductions that will be granted in calculating the premiums payable by persons whose coverage is provided by RAMQ in 2001.

TABLE 1.9

DEDUCTIONS ACCORDING TO FAMILY SITUATION
Québec prescription drug insurance plan (2001)
(in dollars)

1 adult, no children	11 460
1 adult, 1 child	18 570
1 adult, 2 or more children	21 170
2 adults, no children	18 570
2 adults, 1 child	21 170
2 adults, 2 or more children	23 570

2.2 Extension of the deadline for filing returns in respect of self-employed earnings

Under the *Act respecting the Québec Pension Plan*, every person who is required to pay a contribution for a given year in respect of his self-employed earnings must file with the ministère du Revenu du Québec (MRQ), without notice or formal demand, a return in respect of those earnings for the year no later than the date on which he is required to file an income tax return for that year or would be so required if he had to pay income tax for that year.

Considering that since the 1995 taxation year individuals who carry on a business in a given taxation year have 46 days more than other workers to file their income tax return, the latest deadline for filing a return in respect of self-employed earnings for a given year is also set at June 15 of the following calendar year.

In addition, the *Act respecting the Québec Pension Plan* stipulates that when no return in respect of the self-employed earnings of a worker for a year has been filed within four years of April 30 of the following year, the amount of the contribution to be made by that worker for that year in respect of such earnings is deemed to be equal to zero, unless the Minister of Revenue determines, before the end of the four-year period, the amount of the contribution payable by the worker.

In all cases where this presumption applies, the self-employed earnings of a worker for the year concerned may not be taken into consideration in computing the unadjusted pensionable earnings of that worker for the year. Given that the unadjusted pensionable earnings of a worker for a year are used to calculate the amount of benefits payable under the Québec Pension Plan, failure to file a return in respect of self-employed earnings can penalize the worker concerned.

The *Act respecting the Québec Pension Plan* will thus be amended to set the date used to calculate the beginning of the four-year period for the purposes of the presumption regarding failure to file a return in respect of self-employed earnings for a given year, at June 15 of the following year.

For greater clarification, the Act will be amended to provide that when no return in respect of the self-employed earnings of a worker has been filed for a given year within four years of the date on which the worker is required by law to file such a return for the year, the amount of the contribution to be made by the worker for that year in respect of such earnings is deemed to be equal to zero, unless the Minister of Revenue determines, before the end of the four-year period, the amount of the contribution payable by the worker.

This change will apply to 1995 and subsequent years.

2.3 Special tax in respect of investments made by Capital régional et coopératif Desjardins

On the initiative of the Mouvement Desjardins du Québec, a joint stock company with the mission of raising venture capital for the resource regions of Québec and the cooperative sector was created under the name of “Capital régional et coopératif Desjardins”.

To support the mission of this company, it was announced in the Budget Speech of March 29, 2001 that Capital régional et coopératif Desjardins would be authorized to collect, up to December 31, 2010, capital enjoying a tax benefit in the form of a non-refundable tax credit for individuals who acquire its shares. It was stipulated that the paid-up capital of the issued and outstanding shares of Capital régional et coopératif Desjardins could increase by \$150 million per year, to a maximum of \$1.5 billion by the end of 2010.

Owing to the tax benefit granted to shareholders, special legislative provisions had to be adopted when the company was created to ensure in particular that the savings of Quebecers would be used as a financing tool to foster the growth of small and medium-sized entities, the development of Québec’s resource regions and the strengthening of cooperatives.

In this regard, the *Act constituting Capital régional et coopératif Desjardins*, which was assented to on June 21, 2001, stipulates that for the fiscal year beginning on January 1, 2006 and for each subsequent fiscal year the proportion of investments made by Capital régional et coopératif Desjardins in eligible entities entailing no security or hypothec must represent, on average, at least 60% of its average net assets for the preceding year, and that a part representing at least 35% of that percentage must be invested in such entities situated in the resource regions of Québec or in eligible cooperatives.

For the purposes of this investment requirement, the expression “eligible entity” means any eligible cooperative and any partnership or legal person that actively operates an enterprise, the majority of whose employees reside in Québec and whose assets are less than \$50 million or whose net equity does not exceed \$20 million, other than an eligible cooperative or a partnership or legal person whose activities consist mainly in investing.

As for the expression “resource regions of Québec”, it means the territories of 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).

The *Act constituting Capital régional et coopératif Desjardins* also stipulates notably that the following investments, totalling up to 20% of its net assets at the end of the year preceding that for which the investment requirement must be met, calculated without taking into account the movable and immovable property used to carry on its operations, will be deemed eligible investments for the purposes of the investment requirement imposed on Capital régional et coopératif Desjardins:

- investments made otherwise than as first purchaser for the acquisition of securities issued by an eligible entity, except to the extent where they represent more than one-third of the total investments made as first purchaser in that entity;
- investments made in addition to an investment already made in a partnership or a legal person, other than an eligible cooperative, which has qualified for the investment requirement of 60% and whose assets are less than \$100 million or whose net equity does not exceed \$40 million.

❑ Special tax

If, for a fiscal year beginning after December 31, 2005, Capital régional et coopératif Desjardins fails to meet the investment requirement provided by the Act under which it was constituted, it will have to pay a special tax for that year.

More specifically, the special tax payable by Capital régional et coopératif Desjardins for a given fiscal year will be equal to the sum of the following amounts:

- 10% of the difference between the amount representing 60% of its average net assets for the preceding fiscal year and the average investments made in eligible entities for the fiscal year, including investments that the *Act constituting Capital régional et coopératif Desjardins* deems eligible for the purposes of the investment requirement, which entail no security or hypothec;

- 20% of the difference between the amount representing 21% of its average net assets for the preceding year and the average investments entailing no security or hypothec made for the fiscal year in eligible cooperatives or in eligible entities situated in the resource regions of Québec, including investments that the *Act constituting Capital régional et coopératif Desjardins* deems eligible for the purposes of the investment requirement if such investments have been made in entities located in the resource regions of Québec or in eligible cooperatives.

For the purposes of this special tax, the average net assets for the preceding fiscal year and the average investments for the current fiscal year will be determined by adding the net assets or, as the case may be, the investments at the beginning of the years concerned, to the net assets or, as the case may be, to the investments at the end of the years concerned and by dividing each of the sums thus obtained by 2. However, the movable and immovable property used to carry on the operations of Capital régional et coopératif Desjardins must not be taken into consideration for the purpose of calculating the net assets.

□ Payment of the tax

The special tax must be paid no later than March 31 of the year following the fiscal year in which Capital régional et coopératif Desjardins failed to meet the investment requirement provided by the Act under which it was constituted.

2.4 Tax treatment of the Farm Income Stabilization Account

In the wake of the Québec Agriculture and Agri-Food Conference of March 1998, a task force, consisting of members of the Union des producteurs agricoles and representatives of the ministère de l'Agriculture, des Pêcheries et de l'Alimentation, the Société de financement agricole, the Régie des assurances agricoles, the secretariat of the Conseil du trésor and the ministère des Finances, was mandated to propose a new farm income security plan.

In March 1999, the task force submitted a report to the Québec government entitled *Les risques d'entreprise à gérer*, in which it outlined a proposal for a farm security program called the Farm Income Stabilization Account (FISA). The Québec government, in concert with La Financière agricole du Québec, acted on the consensus reflected in this report by announcing, on May 17, 2001, the gradual implementation of FISA.

To support the implementation of this program by fostering the participation of Québec's agricultural enterprises, the tax legislation will be amended to, among other things, make contributions to a FISA deductible. On the other hand, amounts withdrawn from a FISA will have to be added to the income of the entity that operates the recipient agricultural enterprise.

The Québec government has asked the federal government to offer FISA participants the same treatment for the purposes of the federal tax system. However, the federal government has not yet agreed to this request since studies are currently under way. Under these circumstances, the Québec government will have to specify at a later date the application details for the rollover of FISA accounts, as well as the rules that will apply when a FISA participant operates an enterprise in several jurisdictions.

The operation of FISA and the tax consequences of participating in this new farm income security program are explained below.

❑ Operation of FISA

Essentially, FISA will replace part of the current farm income stabilization insurance scheme (FISI), which will be maintained, however, to complement FISA.

More specifically, FISA will be a program under which an agricultural enterprise and the Québec and federal governments will pay amounts in equal proportions (50% by the enterprise and 50% by the governments) into a fund for the enterprise. The income stabilization mechanism provided under FISA will allow farmers to stabilize their income by making voluntary contributions to the fund in years when their income is high, and by making withdrawals from the fund, under certain conditions, in years when their income declines. FISA will have the following characteristics:

- FISA beneficiaries will be agricultural enterprises. A fund will be established for each participating enterprise, regardless of the type of entity that operates it (individual, corporation, partnership, trust or cooperative).
- The amounts accumulated in FISA will be vested in the agricultural enterprise.
- Unlike the federal Net Income Stabilization Account (NISA) program, which consists of two funds, FISA will comprise a single fund in which the voluntary contributions of the participating enterprise as well as government contributions and accrued interest will accumulate.

- The contributions of enterprises will be subject to certain rules provided under the program, and the financial participation of the Québec and federal governments will be conditional on that of the enterprise concerned. In addition, a ceiling will be placed on government contributions, for both annual amounts and cumulative government participation.

❑ Treatment of contributions and withdrawals

Contributions made to a FISA in a taxation year by an entity that operates an agricultural enterprise will be deductible in calculating the income derived from the operation of this enterprise by that entity for the taxation year.

Consequently, the amounts withdrawn from a FISA by such an entity in a taxation year will be added to the income derived from the operation of the agricultural enterprise by that entity for the taxation year in which the withdrawals were made.

❑ Transfer from a NISA to a FISA

In short, NISA consists of two separate funds.

The first fund contains the farmer's voluntary contributions. Amounts deposited in this fund cannot be deducted in calculating the farmer's income. However, amounts withdrawn from it are not taxable.

The second fund contains government contributions and the interest accumulated on contributions made by the farmer and government. Amounts withdrawn from this fund are taxable as investment income.

Once FISA is implemented, NISA participants will be able to decide to close their NISA account and transfer its contents to FISA through a special contribution.

With regard to taxation, the closure of these accounts will be treated according to the existing rules: that is, withdrawals from the first account (which contains contributions made by the farmer and which did not provide entitlement to any deductions in the past) will not be taxed, while withdrawals from the second fund (which contains government contributions and accumulated interest) will be taxed as investment income.

The total amounts withdrawn will then be deposited in the participant's FISA as a special contribution that does not give entitlement to a government contribution but that may be deducted in calculating the participant's business income.

❑ Other application details

Government contributions and accrued interest transferred to a participant's FISA at the end of a taxation year will not have to be added to the income of that entity for the taxation year.

In addition, interest paid by an entity in a given taxation year on money borrowed to contribute to a FISA will not be deductible in calculating the income of the entity for the taxation year.

For the purpose of computing income earned in Québec, entities that participate in FISA will be deemed to have, in regard to an agricultural enterprise, an establishment in Québec, until the balance of the account is completely exhausted.

La Financière agricole du Québec will issue, on behalf of the entity that operates the enterprise for which a FISA has been created, an annual statement indicating, as the case may be, the amount of the contributions made to a FISA or the amount of the withdrawals made therefrom by that entity during a given taxation year. The statement issued by La Financière agricole du Québec for a taxation year must be attached to the income tax return or the information return, as the case may be, filed by the entity with the MRQ for the taxation year. When a FISA account is opened, the entity concerned must inform La Financière agricole du Québec of its balance sheet date.

In addition, when La Financière agricole du Québec makes a payment upon the closure of a FISA account, it will have to deduct income tax at the rates applicable to lump sums, that is, for 2001, at the rate of 18% if the payment does not exceed \$5 000 and at the rate of 21.5% if it exceeds \$5 000.

❑ Application date

These measures will apply after the day of the Budget Speech.

2.5 Reduction of the specific duty and tax applicable to beer sold by microbreweries

As a rule, the rates of the specific duty and tax applicable to beer sold in Québec are equal to 0.04 cents per millilitre. However, reduced rates are applicable to beer brewed in Québec by a brewer whose world-wide volume of beer sold during the previous calendar year by himself, a brewer with whom he is associated within the meaning of the *Taxation Act* or a brewer whose business he has continued to carry on does not exceed 300 000 hectolitres. The reduction is equal to 67% on the first 25 000 hectolitres of beer sold in a given calendar year for consumption in an establishment or elsewhere, and to 33% on the next 125 000 hectolitres sold in this manner.

Changes will be made to this rate reduction structure so that the volume of beer sold, to which the 67% reduction applies, will be increased from 25 000 to 75 000 hectolitres. Consequently, the 33% reduction will apply to the next 75 000 hectolitres so as to keep the total volume of beer sold, for which a rate reduction is granted, at 150 000 hectolitres.

These changes will apply to beer sold by a brewer after December 31, 2001.

3. NEWS RELEASES ISSUED BY THE FEDERAL DEPARTMENT OF FINANCE

3.1 News release of October 12, 2001

On October 12, 2001, the Minister of Finance of Canada issued a news release²³ announcing a proposal to make permanent the measure that provides special tax assistance for donations of publicly traded securities to charities. Initially, this measure was scheduled to expire on December 31, 2001.

This proposal also applies to certain donations of securities acquired by an employee through a securities option plan.

Québec's tax legislation will be amended to incorporate, with adaptations based on its general principles, the measures proposed on this occasion by the Minister of Finance of Canada. However, these measures will be adopted only after the approval of any federal law arising therefrom, taking into account the technical amendments that might be made prior to its approval, and will apply on the same dates as for federal income tax purposes.

3.2 News release of September 18, 2001

On September 18, 2001, the Minister of Finance of Canada tabled in the House of Commons a detailed Notice of Ways and Means Motion to amend the *Income Tax Act* in respect of expenditures matchable with a right to receive production.²⁴

In short, these amendments are aimed at limiting the deductibility of expenditures matchable with a right to receive production, when such expenditures relate to a tax shelter or when the decision to incur them is made primarily to obtain a tax benefit.

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

23 Department of Finance Canada news release 2001-089.

24 Department of Finance Canada news release 2001-079.

3.3 News release of June 3, 1999

On June 3, 1999, the governments of Canada and the United States concluded an agreement regarding expenses related to advertising in periodicals.²⁵ The *Income Tax Act* was subsequently amended to reflect the commitments made under this agreement.

In short, the amendments made at that time set the current deduction for advertising expenses on the basis of a periodical's Canadian editorial content. In addition, the concept of Canadian citizen, used to determine whether a newspaper or a periodical is Canadian has been broadened to include Canadian pension funds and certain other entities that may own Canadian newspapers or periodicals.

Québec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the federal measures announced in this regard. These measures will apply on the same dates as for federal income tax purposes.

The measures pertaining to the deduction for expenses related to advertising in periodicals will apply to advertising placed in issues dated after May 31, 2000, while the definition of Canadian citizen will apply to advertising placed in issues dated after June 30, 1996.

²⁵ Department of Finance Canada news release 2000-045.

4. COLLECTING ALL OF THE GOVERNMENT'S REVENUE

The ministère du Revenu du Québec (MRQ) is responsible for ensuring the collection of most of the government's own-source revenue and, as a result, is at the forefront of the fight against tax evasion and the underground economy. In recent years, the MRQ has therefore been granted additional resources in order to:

- step up and improve its audit activities;
- raise taxpayers' awareness of the consequences of tax evasion;
- make the changes required to induce better tax compliance.

The measures taken by the MRQ in this regard will have generated an additional \$1.08 billion in revenue for the government for the 2000-2001 fiscal year.

This Budget Speech reaffirms the government's determination to fight tax evasion and the underground economy. To that end, the measures already in place will be maintained and others will be introduced, in particular to ensure that:

- all taxpayers pay their fair share of income tax and consumption taxes for the funding of public services;
- workers enjoy better social protection;
- businesses can carry on their activities in a context of fair competition promoting job creation.

The new measures to be implemented by the MRQ will generate \$100 million in additional revenue for the 2002-2003 fiscal year. The \$12 million required to implement these measures will be financed through the budgetary provision of the ministère des Finances for collecting all the revenue owed to the government. Appropriations for the provision will be increased by \$10 million as of 2002-2003.

□ Additional measures for monitoring QST and GST registration

Persons who carry on commercial activities in Québec are generally required to register for the Québec sales tax (QST) and the goods and services tax (GST). As registrants, these persons must collect the taxes on the property and services they supply to their customers, and remit the amounts collected to the MRQ. Registration entitles persons who carry on commercial activities to claim a refund of the taxes paid on their inputs.

Recently, the MRQ uncovered certain tax evasion stratagems involving the use of registration certificates. For example, it discovered that entities that do not carry on commercial activities register for the taxes for the sole purpose of issuing false invoices for property and services supplied to registered businesses, which can then claim, unduly, a refund of the taxes regarding the inputs billed to them without having actually paid the taxes.

In this context, the MRQ will step up measures for monitoring the issuance of registration certificates, in order to identify potential fraud cases before monetary losses are incurred. Through such identification, the MRQ will be able to more diligently monitor new registrants that pose a fraud risk. It should be pointed out that the MRQ's additional monitoring measures will not have any impact on customer services or on support programs for new businesses.

❑ Intensification of audit and recovery activities

Certain taxpayers and agents in the restaurant sector use computerized accounting systems to suppress sales and thereby avoid remitting the taxes collected and paying income tax on the income from the sales. To counter such practices, the MRQ intends to intensify its efforts to detect manipulations that can be done on such computerized systems.

The MRQ will also step up its audit activities regarding taxpayers whose lifestyle far exceeds their financial situation, as reported, and who therefore do not appear to pay their fair share of income tax.

On July 5, 2001, various measures were announced to promote compliance with tax rules in the garment industry²⁶. These measures, which are aimed in particular at eliminating false invoices for sub-contracting services, will be implemented on January 1, 2002 and will primarily target QST registrants that do business in the garment-making sector.

Given the scale of the audit activities to be carried out by the MRQ with respect to taxpayers and mandataries located in the greater Montréal area, additional resources will be granted to the MRQ so that it can intensify its activities in that region.

Finally, the MRQ will bolster its audit and recovery efforts with respect to taxpayers and mandataries residing outside Québec.

26 Ministère des Finances du Québec Bulletin d'information 2001-6.