A Guide to Quebec Corporate Tax Incentives

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PRÉCIS

Dans cet article, les auteurs expliquent les motifs qui ont amené le gouvernement du Québec à se doter d'une politique industrielle mettant l'accent sur les incitatifs fiscaux en faveur des sociétés. Un grand nombre de mesures fiscales ont été progressivement introduites dans le but d'intéresser les dirigeants de sociétés à faire des investissements au Québec. Ces mesures fiscales ont majoritairement ciblé des domaines d'activité économique qui sont des excroissances de la R-D. Les auteurs ont conçu un ensemble original de tableaux explicatifs qui permettent d'exposer, de façon simple mais détaillée, la grande diversité de rouages techniques derrière ces mesures, ainsi que d'en comparer facilement les caractéristiques. Un cas hypothétique explique plus en détail le crédit d'impôt pour la Cité du Multimédia et des tableaux chiffrés expliquent les choix de planification fiscale pour les sociétés qui entendent s'y établir.

ABSTRACT

In this article, the authors explain why the Quebec government has actively pursued an industrial policy using tax incentives to attract corporate investment. Quebec tax policy with respect to corporations has been aimed mostly at R & D spinoffs in selected sectors of the economy. The authors develop a unique set of reference tables structured to explain in detail the wide variety of technical characteristics of these numerous incentives. A simple case study presents through a numerical illustration some tax-planning considerations involved in the decision to opt for one such incentive, the Multimedia Complex credit.
Keywords: Quebec; tax incentives; tax policy; R & D; innovations; income tax credit; deductions; capital tax.

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INTRODUCTION

Assessing the Quebec tax advantages of a new investment project in Quebec is often a daunting task for a corporation and its advisers. The necessary technical information is contained in a set of documents unique to Quebec, and enactment of legislation often lags several months if not years behind the announcement by the minister of finance in the provincial budget speech.

Compared with federal and other provincial budget documents, Quebec budget papers usually provide a more detailed explanation of new tax measures, a definite plus for the tax analyst. The fine print found in the Quebec Taxation Act, however, comes much later. For example, measures announced in the budget speech of March 31, 1998 were only introduced in a bill on December 16, 1999, which became law on November 15, 2000, almost three years later. Between announcement and enactment, one must rely for clarification on the bulletins d'information released by the Department of Finance (QDF), which provide some clarification of the working details of the incentives. Some of these documents are revised before the bill is adopted, as QDF officers see fit. Of course, these explanatory documents do not bind the government.

The Quebec government has developed numerous tax incentives over the last decade that target specific economic activities. Only corporate tax incentives are discussed here. We have structured the article as follows. First, we address the economic policy underlying corporate incentives. Then, we explain the reference tables that we have developed for corporations and their advisers. (The tables themselves are found in appendix A.) The tables highlight the key features of most corporate tax incentives unique to Quebec. They identify incentives using a cross-classification system: the tax measures are separated according to the economic sector to which they are targeted and are then divided according to the usual tax-expenditure categories. Detailed notes explain the individual characteristics of each incentive. In building the tables in this fashion, we wanted to provide readers with a working tool, allowing quick identification of all the relevant parameters of each incentive. This should allow a corporation to easily determine whether a particular measure is relevant for its purposes. In the article's final section, we focus on the interaction of two Quebec tax incentives and discuss relevant planning issues through numerical illustrations. The tables illustrating the discussion are of general application and may not be directly applicable to a specific situation. Before a determination is made by the taxpayer, all the relevant facts should be assembled and submitted to a qualified tax professional. The article concludes with two appendixes. Appendix A, as mentioned, sets out the reference tables of Quebec corporate tax incentives. Appendix B sets out, also in tabular format, Quebec legislative references to incentives for corporations.

THE POLICY BACKGROUND OF QUEBEC TAX INCENTIVES FOR BUSINESS INVESTMENT

Introduction

Outside of provincial government circles, little has been written to explain the motives behind Quebec's large-scale tax incentive program for corporate investment, and little to assess its relevance. This section attempts to build a link between government papers and some of the current tax policy literature. Examination of the latest Quebec Tax Expenditure Account reveals a somewhat startling fact: in 1999, there were 54 tax incentives applicable to corporations doing business in Quebec that had no counterpart in the federal Income Tax Act.[1] Some of these incentives offer special treatment for all taxes paid by Quebec corporations, while others are restricted to Quebec corporate income taxes. (There are a substantial number of federal corporate tax incentives that have a complete or partial equivalent in Quebec, but these issues are beyond the scope of this article.) The Tax Expenditure Account supplies a short description of each of the measures that were in effect in 1999, along with cost estimates in terms of forgone revenue.

The Quebec Tax Expenditure Account, like all such publications, warns the reader not to add up individual cost estimates, and not to infer from a cost estimate that revenue would go up by the same amount if a specific incentive were scrapped.[2] The reason is that costing is done item by item, while the removal of one or more incentives is likely to have a ripple effect on government revenues.

Two Categories of Quebec Corporate Tax Incentives

In 1999, Quebec corporate taxes generated a combined revenue of $7.349 billion, representing 19.1 percent of Quebec own-source revenues. There are three types of Quebec corporate tax: corporate income taxes, taxes on capital, and employer contributions to the Quebec Health Services Fund (QHSF). Their respective proportions of total corporate tax revenue in 1999 were 22.7, 23.7, and 53.7 percent.[3]

For the purposes of analysis, Quebec tax incentives can be divided into two categories. Incentives in the first category are passive, in the sense that no specific action is required of a corporation. There are two measures in this category. The first, introduced in 1999, is a lower rate of annual QHSF contributions for corporations with payrolls under $5 million. The second, introduced in 1986, is a tax holiday for new corporations. This tax holiday has become more generous since its introduction, and in its current form it is generally offered for a period of five years and applies to all three Quebec corporate taxes. (The tax holiday on QHSF contributions started in 1996.) Although the Tax Expenditure Account does not provide a cost estimate of the revenue loss from reduced QHSF contribution, it does estimate the loss from the five-year tax holiday to be $14 million for income taxes, $6 million for tax on capital, and $19 million for QHSF contributions.[4] The relatively small amounts of these forgone revenues simply reflect the fact that most new corporations are likely to be small or medium-size businesses with little if any taxable income in the first year of operation, and with limited capital and payroll.

The second category of incentives entails much greater revenue losses for the Quebec government. In order to qualify for these incentives, corporations must incur expenses in meeting Quebec industrial policy criteria.

The single most costly measure in this category is the refundable tax credit for scientific research and experimental development ("R & D"). This incentive has several variants, as shown in table A1, but the most important one is the credit for qualifying R & D salaries paid in Quebec (directly or subcontracted). This credit was introduced on a permanent basis, with slightly different parameters, in 1983; other variants were introduced in 1996. All variants of the refundable R & D tax credits cost the Quebec government $349 million in 1999, more than 86 percent of which was accounted for by qualifying salaries related to the basic credit.[5]

As shown in tables A1 to A5, many Quebec corporate tax incentives are designed to alleviate the tax burden of corporations that opt to invest in specific sectors of economic activity. These incentives are integral to Quebec's industrial policy, which the government literature refers to as "structure-enabling."

To the outside observer, the array of tax incentives available to Quebec corporations may be bewildering. To understand the logic behind the incentives, one must have some understanding of the recent history of tax policy in Quebec, discussed below.

Historical Perspectives on Corporate Tax Policy in Quebec

In the early 1980s, the Quebec government noted Quebec's below-average R & D performance compared with the average in OECD countries, and decided to actively promote R & D in the province. The numbers showed that in 1981 private sector R & D expenditures, as a percentage of gross domestic product (GDP), were only 0.6 percent in Quebec. The figure was identical for Canada as a whole, compared with an average of 1.31 percent for the then 25 OECD countries.[6] The Quebec government's objective was to direct assistance toward the creation of highly skilled jobs associated with a strong R & D sector. This is what led to the 1983 introduction of the refundable tax credit for R & D, based on salaries paid for qualifying jobs, which was subsequently broadened to encompass other activities. The credit calculation gives special emphasis to R & D-oriented small and medium-size businesses. Instead of the basic 20 percent credit rate, a rate of 40 percent is applied to the first $2 million of eligible Quebec R & D salaries, where the corporation's assets, and those of associated corporations, are less than $25 million. For salaries paid after May 9, 1996, the rate is rolled back at the rate of 4 percentage points for every $5 million in assets between $25 million and $50 million; when assets exceed $50 million, the rate levels off at 20 percent. Another small-business-oriented R & D incentive was introduced in the 1999-2000 budget speech: an additional refundable tax credit of 15 percent is available to corporations that are eligible for the 40 percent R & D credit (that is, a corporation, and associated corporations, with combined assets valued at less than $25 million). The additional credit is applicable to the amount by which R & D expenditures in a corporation's taxation year exceed the average of those expenditures in its three previous years.

Small businesses account for an important portion of employment in Quebec. Although there is no single, widely accepted definition of small business in the tax policy literature, two indicators are often used. One is a $200,000 cap on corporate income in the manufacturing sector; another is a $3 million cap on business assets in non-manufacturing sectors. According to QDF statistics that use these criteria, 92.8 percent of tax-filing Quebec corporations (225,120 out of a total of 242,652) were small business corporations in 1994.[7]

Statistics that show below-average performance in Quebec or in Canada compared with OECD countries, however, should not be given undue weight. Caveats to that effect have been expressed in at least two studies.[8] Brean and Leonard, for example, disagree somewhat with the economic logic behind the Canadian government's policy with respect to R & D. They argue that current policy puts too much faith in the ability of new Canadian technical discoveries to generate economic and technological growth. Since the Canadian economy is a small player on the world market and Canadian markets are very open, Brean and Leonard think that much more attention should be paid to finding efficient ways of adapting and marketing innovations that are accessible to Canadian firms. Tax policy, in their opinion, should not be limited to supporting traditional R & D, because this is not the best way of increasing productivity in Canada.[9] It would be better, in their view, to find means of stimulating demand for new products and services than to expect that tax support for R & D will create its own derived demand.

For its part, the *Report of the Technical Committee on Business Taxation* notes that Canadian private sector R & D expenditures are substantially lower than those in many other industrialized countries, even though Canadian tax incentives (federal and provincial combined) rank far ahead of those of other G7 countries.[10] The report argues that taxation is only one factor influencing R & D. Other important factors include human capital considerations; the cost of financing and of other R & D-related expenditures; the availability, cost, and quality of infrastructures such as airports; the quality of the industrial structure; access to markets; the state of competition in the market; and government policy in related areas such as patent protection, procurement policies, and grant programs. Like Brean and Leonard, the report calls attention to the important role of all inputs in the production process, and to the demand side of the market as the driving force for productivity improvement. In short, the spotlight should not be focused on tax incentives. They play supporting roles and should not be thought of as stars of the show. The report suggests that the current tax incentives for R & D should be reviewed and that consideration should be given to reducing the general rate of corporate taxation, so as to improve the likelihood that research results can be more broadly exploited by all Canadian firms.

The Quebec government had independently come to many of the same conclusions. It presented its strategy for refocusing Quebec R & D tax incentives in a supplementary paper to the March 1999 budget presentation.[11] In that paper, the

QDF justifies its extension of tax support to research activities outside the classic OECD and Department of Revenue benchmark definitions of R & D. The paper explains that tax incentives should be widened to include "innovations," which include activities that would fail R & D tests but that are essential to improving productivity in Quebec's small open economy:

> A Company can innovate by carrying out an R&D program, but also by acquiring innovations developed by other companies, in Québec or elsewhere.[12]

According to the QDF, almost 50 percent of the net employment growth between 1984 and 1997 could be attributed to the budding knowledge-based economy.[13] The paper points out that 1996 was a turning point, signalling the new focus of Quebec corporate tax incentives on companies involved in adapting technologies to specific new environments in the knowledge-based economy. Two such incentives were announced in that period. First, in 1996, a refundable tax credit for the production of multimedia titles was introduced; this was the first in the set of refundable corporate income tax credits targeted, for the most part, at labour expenses incurred in activities relating to the "new" economy. Then, in 1997, the budget introduced a supplementary deduction equal to 25 percent of the accelerated deduction claimed in the year (a 100 percent accelerated depreciation on qualifying equipment had been introduced in 1988). The 1997 budget also granted an additional deduction of 25 percent for intangible goods acquired as a result of a technology transfer—namely, patents, licences, permits, knowhow, and trade secrets (a 100 percent accelerated depreciation on such intangible assets had been introduced in 1989). More credits aimed at subsectors of the new economy were introduced in each subsequent Quebec budget or through a special QDF bulletin. Among the credits that were implemented were the credit for the Information Technology Development Centre (ITDC), which appeared in the March 1997 budget; the credit for the Multimedia Complex, which was announced in the QDF's June 23, 1998 *Bulletin d'information* no. 3; and the credit for corporations established in the Centre national des nouvelles technologies de Québec (CNNTQ), which, along with a geographical extension of the ITDC called the Carrefour de la nouvelle économie, appeared in the March 1999 budget. Several new credits were introduced in the 2000 and 2001 budgets, and are featured in appendix A. Most of these tax credits have little in common beyond the fact that they are related to the cost of labour, because each incentive is designed with specific detailed technical requirements, ceilings, or limitations.

Complexities notwithstanding, Quebec corporate tax credits successfully address several criticisms of tax incentives. The credits are usually computed as a percentage of eligible salaries, thus targeting aid at human resources rather than hardware. The credits are aimed at concrete R & D applications in industry, thus helping applied research to get a foothold in Quebec. Their refundability guarantees that money becomes quickly available. They also help to reduce uncertainty, since many of the credits require that a government clearinghouse previously certify that the expenditure is an eligible expenditure. Once approval is granted, there is a greater probability that the credit will be paid, thus improving the corporation's cash flow. It should be pointed out, however, that such outside certification does not guarantee that the Quebec Department of Revenue will feel itself bound to accept the tax credit; Revenue must make a decision in the usual assessment procedure of the corporation's tax return. Anti-avoidance tests are often applied in evaluating tax returns that claim a credit.

Usefulness, Cost Effectiveness, and Other Economic Issues in Relation to Tax Incentives

The QDF is convinced that its corporate tax policy has yielded very positive results with respect to usefulness, cost effectiveness, and other economic issues. The title of this section is taken from one of its studies.[14]

Were the Tax Incentives Necessary?

According to the QDF paper, the Quebec ratio of domestic R & D expenditures as a percentage of GDP exceeded the Canadian ratio between 1990 and 1996. The Quebec ratio grew at a faster rate than it did for Canada as a whole and had almost reached the Ontario level by 1996. Furthermore, the gap between the Quebec and OECD ratios tended to narrow during that period.[15] The QDF paper thus argues that the government has reached the goal it had set for itself in 1983, when it introduced the salary-based R & D tax credit. The paper quotes a report submitted by the Quebec Conseil de la science et de la technologie (CST), in which it is argued that two-thirds of the narrowing of the gap between the Quebec and OECD ratios can be attributed to Quebec and Canadian R & D tax incentives.[16] This statistic was estimated through regression analysis, in which a global equation was estimated, along with an equation for each of 26 sectors of economic activity for which information was available.[17] These equations relate real expenditures on R & D to real output, to the relative price of R & D, and to a cyclical variable. The R & D data were obtained from a special Statistics Canada tabulation and aggregated at the industry level. In the model, the relative price of R & D is a variable that multiplies the ratio of the R & D expenditure deflator to the output price deflator by the "B index." As explained in the CST paper and elsewhere, the B index measures the payoff threshold of a dollar invested in R & D. In technical terms, the B index corresponds to the present value of before-tax income a firm needs to recover its investment in R & D and pay taxes on the income generated by the project. The numerical value of the B index is obtained by dividing the after-tax cost of one dollar invested in R & D by one minus the income tax rate on the corporation's income. In a tax-free world, the B index would have a value of one. R & D tax incentives lower the cost of the project. When the government offers greater tax incentives to R & D, the result is a lower B index, indicating that a lower return will be sufficient to compensate for the same dollar investment. The decision by a corporation to invest in R & D-intensive activities is, of course, a much more complex decision, as recognized in the CST paper. Other important considerations may even be more relevant than tax incentives, as pointed out by the Technical Committee on Business Taxation.[18]

Especially for corporations currently outside Quebec that are thinking of setting up facilities in the province, the relevant costs and advantages of competing geographical sites must be compared. For any given level of expected sales, relevant current and projected costs will have to take into account both dollar values and more qualitative factors. Variable cost differentials related to labour, transportation, and energy, among other things, may be relevant. Sales projections may differ depending on market accessibility from different sites. Qualitative factors such as labour adaptability, housing costs, school curriculum, and individual income taxation levels for the technical and managerial staff may also be relevant. A recent study by KPMG for the QDF provides a useful methodological framework for quantitative cost comparisons.[19] Using standardized cost factors individually tailored for 12 manufacturing sectors and 6 service sectors, the study compares detailed quantitative cost elements for hypothetical corporations across 13 North American cities. The estimates are for 1998. According to the study, Montreal has an important competitive advantage over almost all other cities in the following areas: initial investment costs for land acquisition and building construction, annual total labour costs,[20] office lease costs, transportation and distribution costs, and annual costs for electricity.[21]

A comparison of key ongoing costs that are location-sensitive[22] across all 13 cities reveals that costs are lowest in Montreal. The aggregate cost figures are presented on an index basis in the comparison. According to the study, labour costs account on average for 55 percent of location-sensitive costs in the 12 manufacturing sectors under study, and for 76 percent of location-sensitive costs in the 6 service sectors. This makes human resources a key consideration in selecting a business site.

There can be no question that Quebec and federal corporate tax incentives are highly interesting when compared with what is offered in other competing locations. For example, the KPMG study shows that over a 10-year planning horizon the combined value of tax incentives per new manufacturing job created in Montreal is worth nearly US $4,000 per annum. In comparison, the same calculation yields an average annual value of slightly more than US $2,000 for the competing US cities and roughly US $3,600 per annum on average for Canadian cities (including Montreal).[23] For the service sectors, differences are more pronounced: tax incentives per new job created in these sectors are worth US $6,329 per annum on average in Montreal, US $2,132 per annum on average for Canadian cities (including Montreal), and US $611 per annum on average for US cities.[24]

How important are tax incentives in the corporate decision to locate, say, in Montreal? The following answer is only a guess, of course, because the computations use the numbers presented in the paragraph above, which are valid only in the reference year. With this caveat in mind, total annual labour costs in the six service sectors are shown to be US $4,663,000 in Montreal and US $7,537,000 in, say, Seattle.[25] Note that Seattle's labour costs are close to the total annual labour costs on average for the nine US cities in this study (US $7,374,000). Montreal thus has an annual total labour cost advantage over Seattle of US $2,874,000. Compared with the average value for the nine US cities, Montreal's labour cost advantage is roughly the same at US $2,711,000.

Compare now the value of the relevant tax incentives to the same service sectors in both locations. Assume for this purpose that each new job in these sectors will generate the dollar values identified above, even though some of these jobs are secretarial. The KPMG study uses industrial references that establish the composition and number of jobs related to a facility in each sector of economic activity. According to the study, there are 102.7 composite labour units on average in the six service sectors.[26]

Putting this information together, one may calculate that the average annual value of federal and provincial tax incentives in Montreal is US $650,000. This figure is obtained by multiplying US $6,329, the annual value of tax incentives per new job created, which was shown to be the value for a Montreal location for these six service sectors, by 102.7, the number of composite labour units for the same sectors. The corresponding average annual value of tax incentives over all new jobs created in the service sectors for the nine cities is US $62,500 (US $611, the average annual value of tax incentives per new job created, multiplied by 102.7 composite labour units). The annual value of these tax incentives is thus to the advantage of Montreal, which offers extra annual incentives worth US $587,500 (US $650,000 – US $62,500).

Although the combined Canadian and Quebec tax incentives are vastly superior to average US incentives, they are overshadowed by the labour cost differences. Labour costs alone are US $2,711,000 less in Montreal than in the nine US cities on average, compared with tax incentive differences of US $587,500 for a corporation in a service industry in Montreal. These labour cost and tax incentive advantages are cumulative rather than offsetting, of course, but the comparison clearly shows that tax advantages cannot supplant basic economic and financial considerations in the corporate decision to expand or relocate, particularly for location-shopping multinational corporations.

In short, the Quebec government studies insist on the important role of tax incentives in economic development, and this is partially warranted, given the substantial investment involved and the continuing worldwide competition to attract knowledge-intensive corporations. However, more fundamental factors are very important, and further analysis is required to correctly assess the relative role of tax incentives.

Have the Tax Incentives Led to an Increase in R & D?

The QDF argues that corporate tax incentives have had a clear, positive effect. It points to the tripling over the last decade in the number of firms that were active in R & D efforts—from 1,232 firms in 1988 to 3,900 in 1998. In the same period, the value of tax credits related to corporate tax incentives nearly quadrupled—from $98 to $325 million.[27]

Using the results of another econometric study, the QDF concludes that tax incentives were cost-effective. In that study, Dagenais, Mohnen, and Therrien estimate that the ratio of additional R & D expenditures beyond their predicted value, if incentives had not existed, over the cost of tax funds lost due to the incentives is close to a value of one.[28]

It should be pointed out that the empirical paper by Dagenais, Mohnen, and Therrien is one of the most recent studies on this difficult question.[29] As the authors note, the earlier studies, some Canadian and some from other countries, have yielded ambiguous results because of methodological differences or differences in data. For this reason, the validity of the QDF conclusions remains uncertain, although both the data and the model were carefully crafted, using the most up-to-date econometric techniques.

The QDF also mentions that 5,361 jobs were created by 103 firms through three incentive programs that were introduced between 1996 and 1999: the credit for multimedia productions, the Multimedia Complex, and the Centres for the Promotion of Information Technologies.[30] According to the QDF, the number of jobs actually created through the programs was much higher than it had forecast.[31]

Did the Tax Incentives Help Stabilize Employment?

In the QDF's opinion, several indicators attest to improvements in the job market in R & D-active corporations that benefited from Quebec tax incentives. First, the 1989-1993 employment slowdown in manufacturing jobs was less severe in those corporations that were involved in R & D than in those that were not. Second, the 1993-1995 upturn was stronger for R & D-active corporations than for those not involved in R & D.[32] Third, the results of another study show that between 1984 and 1997 employment grew at a faster rate in knowledge-intensive sectors of economic activity than in traditional sectors. These knowledge-intensive sectors were responsible for 50 percent of net job creations in that period and were less sensitive to the effects of the recession at the beginning of the 1990s.[33]

Summary of Tax Incentive Policy

Since 1983, the government of Quebec has been actively seeking to develop employment in R & D-related activities. In 1996, the QDF launched incentives to improve employment prospects in activities that would not pass the strict Revenue-approved R & D test but that could be considered applied R & D spinoffs. The QDF is convinced that this policy is extremely useful in establishing technological centres in Quebec. However, corporations that want to take advantage of these innovative incentives are faced with a vast and baffling array of extremely detailed requirements. To clarify the inner workings of these measures, we have developed a set of reference tables that makes it possible to quickly understand all relevant aspects of a given Quebec corporate tax incentive. In the next section we explain how to use the tables; the tables themselves are shown in appendix A.

REFERENCE TABLES OF QUEBEC CORPORATE TAX INCENTIVES

The five tables in appendix A organize Quebec corporate tax incentives in user-friendly format. Each table lists incentives according to broad economic sectors. Table A1 presents incentives available to all corporations irrespective of the nature of their business. Table A2 presents incentives to corporations whose business interests can be grouped somewhat loosely under the heading of the "new economy"; the incentives target mostly, but not exclusively, the sectors of information technology and cultural activities. Table A3 lists incentives available to corporations in manufacturing and some services. Table A4 lists incentives addressed to corporations involved in financial activities. Table A5 lists miscellaneous incentives that, in our opinion, are of limited scope or deal with situations that have only marginal bearing on a corporation's decision to locate in Quebec.

In the tables, incentives are assembled using usual tax-expenditure classifications and are grouped in the following categories: deductions in the computation of income; income tax holidays; income tax credits; deductions or tax holidays in respect of tax on capital; and tax deferrals. For example, the Quebec sound recording production tax incentive is found in table A2 under the heading "Credits." The notes in the right-hand column of each table refer to the explanatory notes that summarize the relevant technical characteristics of a measure. A quick glance at the imposing number of notes will convince anyone that Quebec corporate tax incentives have been designed with intense attention to detail. Each measure is to some degree unique in its design. This detail, while reducing the likelihood of fuzzy areas, requires careful scrutiny in tax planning. It should be mentioned that in compiling the explanatory notes we found it necessary to omit some of the more minute details behind the incentives.

The explanatory notes to the tables are divided into 10 categories:

1. claimant eligibility criteria,
2. operational activities requirements,
3. amounts in dollars/computation of the incentive,
4. expiry date or application period,
5. certification requirements,
6. geographical zone requirements,
7. rules governing claims for multiple credits,
8. rules regarding the taxability of the incentive,
9. anti-avoidance rules, and
10. other considerations.

The reader interested in checking the rules under one of these categories for a specific incentive can thus quickly locate the relevant information. For example, the computation rules for any credit are always under note heading 3. Each alphabetic superscript following this number (for example, 3^{aa}) refers to a specific feature of the computation rules. When two credits have identical computational features, the same alphanumeric note is listed beside each credit.

Although this classification system may appear cumbersome at first, it offers numerous advantages. First, the grouping of incentive characteristics makes key information readily accessible. A tax professional would otherwise have to track down those details across a large number of pages of tax law. Second, the system allows the reader to quickly compare the characteristics of various incentives. This is sometimes an important step in the early stages of tax planning. For example, it might be useful to know whether two potential credits are governed by rules that limit their combined claim. Third, the tables can be used in reverse fashion. For example, all corporate tax incentives that require advance certification can be identified simply by tracing one or more of the certification notes (under note heading 5) back to the right-hand columns in the tables.

A Note on Some Specific Rules Applicable to Quebec Tax Incentives

The Quebec Taxation Act[34] employs a vast number of cross-references, which, for the occasional user, requires time-consuming research. The following are brief explanations of some of the rules succinctly described in the explanatory notes in appendix A.

A general rule provides that when a tax is deemed to have been paid in respect of an expense, the expense cannot be claimed a second time in the computation of another credit.[35] In other words, the same dollar expense cannot be used to obtain more than one tax credit.

A second general rule provides that an eligible expense must be reduced by any assistance received in its respect. Since a tax credit is usually viewed as assistance, this rule would lead to a circular result in computing the credit. To avoid this result, the legislation provides that, for the purposes of computing the value of a tax credit, the credit is deemed not to constitute assistance. Recently, Bill 175[36] introduced TA section 1029.6.0.0.1, which assembles under a single heading all the deeming rules that were previously scattered across the different sections of the TA containing the applicable credit computation rules. TA section 1029.6.0.0.1 also lists the assistance payments, governmental or not, that are excluded in the computation of the various credits, such as certain credits granted by the federal government or assistance received, when applicable, from cultural bodies.

At present, a number of tax credits are deemed not to be assistance for the purposes of TA part I tax, and the applicable rules remain in the section of the TA where the credit is described. Thus, the R & D credit rules can be found in TA section 1029.8.21.2, the credit for on-the-job training periods in TA section 1029.8.33.9, and the design credit in TA section 1029.8.36.28.

A NUMERICAL EXAMPLE OF THE INTERPLAY BETWEEN TWO CORPORATE INCOME TAX CREDITS

This section illustrates the tax-planning issues for a corporation examining whether it should move to the Multimedia Complex in Montreal ("the Complex").[37] In assessing the issue, the corporation is likely to discover that more than one tax credit may be available to it. Which should it choose? What are the consequences of choosing one credit over another? The refundable tax credit for the Complex was introduced a few months after the 1998 budget speech, in the QDF's June 23, 1998 *Bulletin d'information* no. 3. Unpublished information from the Quebec Department of Revenue shows that, in 1999, 24 corporations in Quebec claimed credits related to the Complex totalling $16.4 million. According to this source, 255,000 corporations filed an income tax return in Quebec in 1999.

As shown in the following hypothetical situation, there may be some interaction between the Multimedia Complex credit and the Quebec R & D tax credit, and a determination of the relevant circumstances must be made so as to select the best outcome for the corporation. Needless to say, there may be many non-tax factors that should also be considered in a real-life situation, such as leasing costs in the Complex, disadvantages arising from physical limits to expansion, and installation and transportation costs. The threats and advantages of key personnel being in close proximity to similar persons employed by competitors might also warrant attention. These issues will not be pursued here.

Locating the Corporation Within the Multimedia Complex

We chose the Multimedia Complex credit because its computational details are identical to those of the credits for the Centre national des nouvelles technologies de Quebec and the credit to foster the development of the new economy.[38]

The work responsibilities of an employee may involve different types of tasks. As a result, part of the salary may trigger for the corporate employer not only a Quebec R & D credit but also other Quebec tax credits related to other activities. These activities may be in the sectors of information technologies, multimedia, communications, or biotechnology. Such a corporation will want to determine whether it should settle in the geographic zones laid out by the minister. Table 1 assumes various allocations of work time for four employees of a corporation considering moving to the Complex. Each employee divides his or her time in different proportions between R & D-eligible activities and Complex-eligible activities. Tables 2 to 6 work out the computation of both credits. Table 2 works out the preliminary Complex credit, before bringing into play the limiting rules. Table 3 works out the amount of the Quebec R & D tax credit. Table 4 illustrates the limitation rules that must be considered in the determination of the net Multimedia

Complex credit, which is shown in table 5. Table 6 compares the total amount of credits available. Tax-planning considerations are the summarized in the discussion that follows.

Tax-Planning Considerations

Maximum Credit Claim

As shown in table 2, two conditions must be met in order to receive the maximum $15,000 amount for the Multimedia Complex credit. First, 100 percent of the employee's work time must be allocated to activities eligible in the Complex.[39] Second, the employee's annual salary must be at least $37,500. If either of these conditions is not met—if the eligible work time is 100 percent but the salary is less than $37,500, or if the salary exceeds $37,500 but the eligible work time is less than 100 percent—the corporation will not obtain the maximum credit.

Claiming the Multimedia Complex Credit or the R & D Credit

Because the eligibility criteria for the Quebec R & D tax credit are stricter than those for the Multimedia Complex tax credit, it can be presumed that an activity that qualifies for the R & D credit will qualify for the Multimedia Complex credit.

If 100 percent of the employee's tasks are eligible for the Quebec R & D corporate tax credit at the 40 percent rate, claiming the R & D credit will always be preferable to claiming the Multimedia Complex credit. The simple reason is that, while both credit rates are 40 percent, eligible salaries for the purposes of calculating the Quebec R & D tax credit have no cap, whereas eligible salaries used for the Complex credit have a $37,500 ceiling. In such circumstances, there is no tax-related incentive for the corporation to operate in the Complex. Of course, a large corporation with a Quebec R & D tax credit of 20 percent may have some incentive to move to the Complex.

Where the employee's time is divided between eligible R & D activities and activities that qualify for the Multimedia Complex credit, the corporation will have to examine the tax implications worked out in tables 1 to 6 to determine whether it is advisable to move to the Complex.

It can be observed in table 4 that item (2)(b) reduces the Multimedia Complex credit to zero. This will be the case when the product of salary and percentage of eligible activities is greater than $62,500. Given the limitation rules, a corporation may in fact not be able to claim a Complex credit even if the employee's salary that qualifies for the R & D credit is less than $62,500. The amount by which the Complex credit is reduced will vary depending on the specific combination of salary and work time allocation.

There is a second reason that the Quebec R & D credit may yield greater tax savings than the Multimedia Complex credit. Assume that an employee earns an annual salary of $37,500 (the dollar limitation of the Complex credit will therefore not be relevant). Assume also that the employer does not receive any assistance in respect of the salary. The first scenario described in table 7 calculates the effective

Table 1 Base Assumptions and Scenarios

Assumptions
- Each employee works in the Multimedia Complex for the entire year.
- The corporation is entitled to the R & D credit at a rate of 40%.
- Assistance received for employees C and D is granted in respect of all their activities.
- Additional leasing costs or any other costs are not taken into account.

	Employee A	Employee B	Employee C	Employee D
Scenarios				
Salary	$37,500	$75,000	$75,000	$75,000
Percentage of work time in eligible Complex activities	100%	100%	80%	40%
Percentage of work time in eligible R & D activities	0%	0%	20%	60%
Assistance received from other sources	—	—	$ 5,000	$ 5,000

Table 2 Multimedia Complex Credit Computation Before Application of the Global Limitation Rules

	Employee A	Employee B	Employee C	Employee D
40% of the lesser of:				
1) $37,500 × % eligible Complex activities	$37,500	$37,500	$30,000	$15,000
2) (Salary – assistance – contractual payments) × % eligible Complex activities	37,500	75,000	56,000	28,000
	$37,500	$37,500	$30,000	$15,000
Credit rate	40%	40%	40%	40%
Tax credit	$15,000	$15,000	$12,000	$ 6,000

yield of the tax credit when 100 percent of the employee's activities are eligible for the Complex credit; the second scenario calculates the yields when 100 percent of the employee's activities are eligible for the R & D credit.

The R & D credit, unlike the Multimedia Complex credit, is not taxable for Quebec tax purposes. This gives the R & D credit an important advantage over the Complex credit, if there is a choice to be made between the two. For the purposes of calculating the real yield, the example integrates federal taxes, but this does not affect in any way the comparative yield.

Finally, a corporation that is eligible for the Quebec R & D tax credit might be in a position to claim the additional 15 percent tax credit calculated on the amount by which payroll value in the current year exceeds payroll value in the reference period. This credit, which was introduced in the March 9, 1999 budget speech, is not applicable to the Multimedia Complex credit computation.

Table 3 Quebec R & D Tax Credit Computation

	Employee A	Employee B	Employee C	Employee D
Eligible salary	—	—	$15,000	$45,000
Minus: Assistance and grants[a]	—	—	1,000	3,000
	—	—	14,000	42,000
Credit rate	40%	40%	40%	40%
Tax credit	—	—	$ 5,600	$16,800

[a] For the purposes of computing the R & D credit, TA section 1029.8.18 provides that the amount of salaries must be reduced by any grant or contractual payment *connected with the salaries*. Because employees C and D are involved in separate Multimedia Complex and R & D activities, only the portion of the grant that relates to the salary in respect of R & D activities will reduce the salary. However, since the proportion of the salary related to the Complex credit will not include the proportion related to the R & D credit, it follows that the Complex credit should not be subtracted from the R & D credit.

Table 4 Multimedia Complex Credit Reduction Computation

	Employee A	Employee B	Employee C	Employee D
The Multimedia Complex credit computed in table 2 must be reduced by:				
1) Complex credit + assistance and grants[a]	$15,000	$15,000	$22,600	$27,800
Minus:				
2) The lesser of:				
a) 60% of salary paid × % Complex credit eligible activities	22,500	45,000	36,000	18,000
b) $25,000	25,000	25,000	25,000	25,000
	$22,500	$25,000	$25,000	$18,000
(1) minus (2) (0 if negative)	—	—	—	$ 9,800

[a] Since the rule that applies here sets a general limit to the tax credit, 100 percent of the grant must be accounted for, even if only part of it is attributable to the salary eligible for the Multimedia Complex credit. Also, as provided by the definition of governmental assistance at paragraph (b) of TA section 1029.8.36.0.3.28, which defines governmental assistance in line (1), the federal R & D credit is not viewed as assistance. As for the rule for the Quebec R&D credit, TA section 1029.8.21.2 provides that the credit is not considered assistance for the purpose of TA part I. Therefore, the credit should not be included in the calculation. However, a QDF officer confirms that the R & D credit will be specifically added in the definition of assistance for the purpose of computing the Complex credit. Thus, the total of $22,600 obtained in line (1) for employee C is the sum of the following amounts: the $12,000 complex credit, the $5,600 R & D credit, and the $5,000 grant.

Table 5 Adjusted Multimedia Complex Credit Computation

	Employee A	Employee B	Employee C	Employee D
Credit computed in table 2	$15,000	$15,000	$12,000	$6,000
Minus: Reduction computed in table 4	—	—	—	9,800
Adjusted Multimedia Complex credit (0 if negative)	$15,000	$15,000	$12,000	—
Total Multimedia Complex credit	$42,000			

Table 6 Total Amount of Credits Available to the Corporation

	Employee A	Employee B	Employee C	Employee D
Adjusted Multimedia Complex credit (table 5)	$15,000	$15,000	$12,000	—
Quebec R & D credit (table 3)	—	—	5,600	16,800
Total tax credits	$15,000	$15,000	$17,600	$16,800

Table 7 Yield of the Multimedia Complex Credit and the Quebec R & D Credit, Depending on the Percentage of Eligible Salary

	100% of salary eligible for Complex credit	100% of salary eligible for R & D credit
Tax credit	$15,000	$15,000
Income taxes due on the credit:		
Quebec (9.04%)	1,356	0
Federal (28.12%)	4,218	4,218
Effective tax credit	$ 9,426	$10,782
Effective tax credit yield[a]	25.1%	28.8%

[a] The effective tax credit divided by the salary expense of $37,500.

Summary of Tax-Planning Considerations

Although the Quebec R & D credit has advantages over the Multimedia Complex credit, eligibility criteria for the Complex credit are much easier to meet than those for the R & D credit. As illustrated in tables 1 to 6, moving to the Complex will be an interesting alternative when some employees do not qualify for the R & D credit but would qualify for the Complex credit. The examples indicate that moving to the Complex generates total additional credits of $42,000 for the four employees. The income taxes that will have to be paid in respect of these credits, and any other costs related to the relocation, should be taken into account in planning a move. The scope of the qualifying activities for the Complex credit will therefore play a key role in the corporation's decision to move into the Complex.

CONCLUSION

In 1996, the Quebec government increased the number of tax incentives aimed at corporations active in certain economic activities. The relevance of these interventions has been carefully presented in many documents issued by the Quebec government, and the arguments for their effectiveness coincide with those of some private sector economists. The policy choice to promote corporate tax incentives in selected areas means, of course, that non-targeted sectors have been left out, and the money used for incentives has not been used to reduce the burden of individual taxpayers. The opportunity cost of this choice has yet to be completely worked out. It is also clear that the large-scale use of corporate tax incentives is accompanied by a very large number of fairly complex application rules, with consequent administrative costs for taxpayers travelling through the maze. Furthermore, the technical components of the measures are constantly evolving, rendering their application more difficult to determine. One consolation is that the certification process for some of the incentives reduces to some degree the level of outcome uncertainty.

Whether one agrees with Quebec corporate tax policy choices, the fact remains that tax incentives to corporations in Quebec are very generous.

APPENDIX A: REFERENCE TABLES OF QUEBEC CORPORATE TAX INCENTIVES

Explanatory notes to tables A1 to A5 start on page 619.

Table A1 Tax Incentives Offered to Quebec Corporations, All Sectors of Economic Activity

Deductions	
Additional 20% deduction for depreciation	1[c], 2[a], 3[d], 6[m]
Supplementary 25% deduction for depreciation	1[c], 2[a], 3[e], 4[a], 6[m], 8[b]
Reduction of employer contributions to QHSF for corporations with payroll of $5 million or less	1[j], 3[s]
Five-year exemption from employer contributions to QHSF for new corporations	1[b], 1[j], 3[a]
Ten-year exemption from employer contributions to QHSF for major investment projects	1[c], 2[c], 5[c]
Income tax holiday	
Five-year tax holiday for new corporations	1[b], 1[j], 3[b]
Ten-year tax holiday for major investment projects	1[c], 2[c], 5[c], 3[ww]
Income tax credit	
Credit for scientific research and experimental development	1[d], 1[e], 2[d], 3[f], 7[a], 8[a], 10[c], 10[d], 10[e], 10[f]
Credit for university research and for research carried on by a public research centre or a research consortium	1[d], 2[d], 3[g], 5[g], 7[a], 8[a], 10[c], 10[d], 10[e], 10[f]
Credit for fees and dues paid to a research consortium	1[d], 2[d], 3[h], 7[a], 8[a], 10[c], 10[d], 10[e], 10[f]
Credit for pre-competitive research or environmental technology innovation	1[d], 2[d], 3[g], 3[h], 5[e], 7[a], 8[a], 10[c], 10[d], 10[e], 10[f]
Additional credit in respect of scientific research and experimental development	1[f], 1[h], 2[d], 3[t], 7[a], 8[a], 9, 10[c], 10[d], 10[e], 10[f]
Credit for technological adaptation services	1[a], 1[i], 1[h], 2[f], 3[h], 7[a], 10[b], 10[c], 10[d], 10[e], 10[f]
Credit to promote the development and integration of e-commerce solutions	1[a], 1[i], 1[k], 2[g], 3[k], 3[l], 3[v], 3[w], 4[e], 7[a], 10[b], 10[c], 10[d], 10[e], 10[f]
Credit for on-the-job training periods	1[a], 1[i], 2[h], 3[h], 3[n], 4[g], 5[f], 7[a], 8[a], 10[b], 10[d], 10[f]
Design credit	1[a], 1[i], 2[e], 3[i], 5[d], 7[a], 8[a], 10[b], 10[c], 10[d], 10[f]

(Table A1 is concluded on the next page.)

Table A1 Concluded

Tax assistance regarding communications between corporations and investors	1[a], 1[k], 2[j], 3[h], 3[m], 4[f], 5[c], 10[b], 10[f]
Tax on capital	
Exemption from tax on capital for new investments	1[c], 2[a], 2[b], 3[u], 4[a], 10[d]
Five-year exemption from tax on capital for new corporations	1[b], 1[j], 3[c]
Ten-year exemption from tax on capital for major investment projects	1[c], 2[c], 5[c]
Deferrals	
100% accelerated depreciation	1[c], 2[a], 6[m]

Table A2 Tax Incentives Offered to Quebec Corporations in the "New Economy"

Deductions	
Five-year exemption from employer contributions to QHSF for an innovative project in an information technology development centre	1[p], 1[q], 1[r], 2[n], 5[a], 6[b]
Income tax holiday	
Five-year tax holiday for an innovative project in an information technology development centre	1[p], 1[q], 1[r], 2[n], 5[a], 6[b]
Income tax credit	
Credit for Quebec film productions	1[a], 1[s], 2[o], 3[ee], 3[ff], 3[gg], 3[ii], 3[oo], 5[b], 7[a], 10[b], 10[c], 10[d], 10[e], 10[f], 10[g]
Credit for film dubbing	1[a], 1[s], 2[q], 3[r], 5[b], 7[a], 10[b], 10[c], 10[d], 10[e], 10[f]
Film production services credit	1[a], 1[s], 2[p], 3[hh], 5[b], 7[a], 10[b], 10[c], 10[d], 10[e], 10[f]
Credit for the production of sound recording	1[a], 1[s], 2[r], 3[ee], 3[jj], 5[b], 7[a], 10[b], 10[c], 10[d], 10[e], 10[f], 10[g]
Credit for the production of musical performances	1[a], 1[s], 2[s], 3[ee], 3[kk], 5[b], 7[a], 10[b], 10[c], 10[d], 10[e], 10[f], 10[g]
Credit for the creation of eligible digital productions	1[a], 2[t], 3[k], 3[dd], 3[ll], 4[h], 5[h], 7[a], 10[b], 10[c], 10[d], 10[f]
Credit for book publishing	1[a], 1[s], 2[z], 3[qq], 3[rr], 3[ss], 5[b], 7[a], 10[b], 10[c], 10[d], 10[e], 10[f], 10[g]
Credit for multimedia titles	1[a], 2[u], 3[mm], 3[nn], 5[a], 7[a], 10[b], 10[c], 10[d], 10[e], 10[f], 10[h]

(Table A2 is concluded on the next page.)

Table A2 Concluded

Credit for corporations established in the Multimedia Complex . . .	$1^{a}, 2^{v}, 3^{k}, 3^{aa}, 3^{bb}, 4^{b}, 5^{a}, 6^{d}, 7^{a}, 10^{b}, 10^{c}, 10^{d}, 10^{e}, 10^{f}, 10^{h}$
Credit for corporations established at the Centre national des nouvelles technologies de Québec	$1^{a}, 1^{i}, 2^{v}, 3^{k}, 3^{aa}, 3^{bb}, 4^{b}, 5^{a}, 6^{e}, 7^{a}, 10^{b}, 10^{c}, 10^{d}, 10^{e}, 10^{f}, 10^{h}$
Credit to promote the development of information technologies—wages to eligible employees	$1^{p}, 1^{q}, 1^{r}, 2^{n}, 3^{k}, 3^{aa}, 3^{bb}, 4^{b}, 5^{a}, 6^{b}, 7^{a}, 7^{b}, 10^{c}, 10^{d}, 10^{e}, 10^{f}, 10^{g}, 10^{h}$
Credit to promote the development of information technologies—acquisition costs or rental expenses of specialized eligible material	$1^{p}, 1^{q}, 1^{r}, 2^{n}, 3^{cc}, 3^{dd}, 4^{b}, 5^{a}, 6^{b}, 7^{a}, 10^{c}, 10^{d}, 10^{e}, 10^{f}, 10^{g}, 10^{h}$
Credits to foster the development of the new economy	$1^{a}, 1^{i}, 2^{w}, 3^{k}, 3^{aa}, 3^{bb}, 4^{b}, 5^{a}, 6^{h}, 7^{a}, 10^{b}, 10^{c}, 10^{d}, 10^{e}, 10^{f}, 10^{g}, 10^{h}$
Credit for job creation in the optics industry in the Quebec area . . .	$1^{a}, 1^{i}, 2^{x}, 3^{uu}, 4^{d}, 5^{d}, 6^{f}, 9, 10^{c}, 10^{d}, 10^{e}, 10^{f}$
Credit for corporations established in the Cité du commerce électronique	$1^{a}, 1^{t}, 2^{y}, 3^{pp}, 4^{b}, 5^{c}, 6^{g}, 7^{a}, 10^{b}, 10^{f}$
Credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain	$1^{a}, 2^{hh}, 3^{uu}, 4^{g}, 5^{a}, 6^{k}, 10^{f}, 10^{i}$
Credit for eligible specialized equipment for the Centre de développement des biotechnologies de Laval	$1^{n}, 1^{q}, 1^{r}, 2^{gg}, 3^{h}, 4^{j}, 5^{a}, 6^{n}, 10^{d}, 10^{f}, 10^{i}$
Tax on capital	
Five-year exemption from tax on capital for an innovative project in an information technology development centre	$1^{p}, 1^{q}, 1^{r}, 2^{n}, 5^{a}, 6^{b}$

Table A3 Tax Incentives Offered to Quebec Corporations in the Manufacturing Industry and in Certain Services

Deductions	
Exemption from employer contributions to QHSF regarding the creation of the international trade zone at Mirabel	1[a], 2[m], 4[b], 5[c], 6[c]
Ten-year exemption from employer contributions to QHSF for small and medium-size manufacturing enterprises in remote resource regions	1[a], 2[ee], 4[b], 6[l], 9, 10[i]
Income tax holiday	
Deductions relating to the creation of the international trade zone at Mirabel	1[a], 2[m], 4[b], 5[c], 6[c]
Ten-year tax holiday for small and medium-size manufacturing enterprises in remote resource regions	1[a], 2[ee], 4[b], 6[l], 9, 10[i]
Income tax credit	
Credit for wages in connection with the creation of the international trade zone at Mirabel	1[a], 2[m], 3[y], 4[b], 5[c], 6[c], 7[a], 10[c], 10[d], 10[e], 10[f]
Credit for customs brokerage services in connection with the creation of the international trade zone at Mirabel	1[a], 2[m], 3[o], 4[b], 5[c], 6[c], 7[a], 10[c], 10[d], 10[e], 10[f]
Credit for acquisition costs or rental expenses in connection with the creation of the international trade zone at Mirabel	1[a], 2[m], 3[z], 4[b], 5[c], 6[c], 7[a], 10[c], 10[d], 10[e], 10[f]
Credit for the construction of strategic buildings in the international trade zone at Mirabel	1[a], 2[m], 3[z], 4[b], 5[c], 6[c], 7[a], 10[b], 10[d], 10[e], 10[f]
Credit for job creation in the aluminum industry in the Saguenay-Lac-Saint-Jean Area	1[a], 1[i], 1[u], 2[cc], 3[uu], 4[d], 5[a], 6[j], 9, 10[c], 10[d], 10[e], 10[f]
Credit for job creation in the manufacturing or environmental sector in the Angus Technopole	1[a], 1[i], 1[u], 2[bb], 3[uu], 4[d], 5[a], 6[i], 9, 10[c], 10[d], 10[e], 10[f]
Credit for job creation in the clothing and footwear industry	1[a], 1[i], 2[aa], 3[tt], 4[c], 10[c], 10[d], 10[e], 10[f]
Credit for processing activities in resource regions	1[v], 2[ff], 3[uu], 4[i], 5[a], 6[l], 10[b], 10[d], 10[e], 10[f], 10[i]
Tax on capital	
Exemption from tax on capital regarding the creation of the international trade zone at Mirabel	1[a], 2[m], 4[b], 5[c], 6[c]
Ten-year exemption from tax on capital for small and medium-size manufacturing enterprises in remote resource regions	1[a], 2[ee], 4[b], 6[l], 9, 10[i]

Table A4 Tax Incentives Offered to Quebec Corporations in the Financial Sector

Deductions	
Exemption from employer contributions to QHSF for a taxpayer operating an international financial centre	1[j], 1[m], 2[i], 5[c], 6[a]
Exemption from employer contributions to QHSF for stock exchanges and securities clearinghouse corporations in Montreal	1[j], 1[w], 2[ii], 4[b], 6[a], 10[j]
Income tax holiday	
Deduction for international financial centres	1[j], 1[m], 2[i], 3[x], 5[c], 6[a]
Tax holiday for stock exchanges and securities clearinghouse corporations in Montreal	1[j], 1[w], 2[ii], 4[b], 6[a], 10[j]
Income tax credit	
Credit relating to fund managers	1[j], 1[l], 3[k], 3[p], 4[f], 5[c], 7[a], 10[b], 10[c], 10[d], 10[e], 10[f]
Credit for solicitation expenditures	1[j], 1[m], 2[l], 3[q], 4[c], 7[a], 10[c], 10[d], 10[e], 10[f]
Credit for specialist training	1[j], 1[m], 2[k], 3[k], 3[p], 4[f], 5[c], 7[a], 10[c], 10[d], 10[e], 10[f]
Credit for solicitation expenditures in respect of a foreign investment fund	1[j], 1[m], 2[dd], 3[j], 4[c], 5[c], 6[a], 7[a], 10[c], 10[d], 10[e], 10[f]
Credit for hiring junior financial analysts specializing in securities of Quebec corporations	1[o], 2[ll], 3[k], 3[p], 4[f], 5[c], 10[b], 10[f]
Credit for hiring junior financial analysts specializing in financial derivatives	1[a], 2[jj], 3[k], 3[p], 4[f], 5[c], 10[b], 10[d], 10[f], 10[j]
Credit fostering the participation of investment dealers on the NASDAQ stock market	1[j], 1[g], 2[kk], 3[vv], 5[c], 10[d], 10[f], 10[j]
Tax on capital	
Exemption from tax on capital for a taxpayer operating an international financial centre	1[j], 1[m], 2[i], 5[c], 6[a]
Exemption from tax on capital for stock exchanges and securities clearinghouse corporations in Montreal	1[j], 1[w], 2[ii], 4[b], 6[a], 10[j]

Table A5 Tax Incentives Offered to Quebec Corporations in Various Economic Sectors

Income tax credit	
Credit for the use of less polluting dry-cleaning technology	10[a]
Credit in respect of tip reporting	10[a]
Credit in respect on environmental trusts	10[a]
Credit for the construction or conversion of vessels	10[a]
Credit for railway undertakings	10[a]
Credit for the taxi industry	10[a]
Credit for the maintenance of racehorses	10[a]
Credit for Gaspésie and certain maritime regions of Quebec	10[a]
Credit regarding exploration expenditures	10[a]
Tax on capital	
Deduction for the acquisition or transformation of vessels	10[a]

Explanatory Notes

1. Claimant Eligibility Criteria

1[a] A corporation that carries on a business in Quebec and has an establishment in Quebec, but not a corporation that is exempt from tax or a Crown corporation.

1[b] A newly incorporated corporation that is a Canadian-controlled private corporation and is not associated with any other corporation.

1[c] A corporation that carries on a business in Quebec.

1[d] A corporation that carries on a business in Canada.

1[e] A corporation that undertakes, or causes to be undertaken on its behalf, scientific research and experimental development in Quebec, but not a corporation that is exempt from tax or a Crown corporation.

1[f] A Canadian-controlled private corporation.

1[g] An investment dealer that it is, or is in the process of becoming, a member corporation of the National Association of Securities Dealers authorized to trade securities listed on the NASDAQ stock market.

1[h] The aggregate of the assets of the corporation and the assets of each corporation with which it is associated, for its preceding taxation year, is less than $25 million.

1[i] 90 percent of gross revenue of the corporation for the year is derived from the carrying on of a qualified business.

1[j] A corporation that has an establishment in Quebec.

1[k] Half or more than half of the salaries that were paid by a corporation to its employees during the preceding taxation year were paid to employees of an establishment located in Quebec.

1[l] A corporation registered with the Commission des valeurs mobilières du Québec (CVMQ) in accordance with the Securities Act as an adviser with an unrestricted practice, or a portfolio management corporation exempt from registration as an adviser under section 157 of the Securities Act that employs an individual as an eligible fund manager.

1[m] A corporation as defined in the Act Respecting International Financial Centres.

1[n] A corporation that carries on or may carry on a business that is an innovative project in the building housing the Centre des biotechnologies de Laval.

1[o] A corporation that carries on a business in Quebec, that has an establishment in Quebec, and that is registered with the CVMQ, but not a corporation that is exempt from tax, a Crown corporation, or a corporation that is an investment dealer or an investment adviser exempt from registering with the CVMQ.

1[p] A corporation that carries on or may carry on a business that is an innovative project in a building housing an information technology development centre or a new economy centre (several types of corporations are excluded, notably a corporation exempt from tax and a personal services business).

1[q] A corporation that does not result from an amalgamation or a merger of several corporations.

1[r] All or substantially all of the corporation's activities in the year and any preceding year consist in carrying on an eligible business.

1[s] A corporation that is not controlled, at any time in the year or during the 24 months preceding the year, directly or indirectly in any manner whatever, by one or more persons not resident in Quebec.

1[t] At least 75 percent of the activities in the Cité du commerce électronique must constitute eligible activities.

1[u] The computation of the credit will be modified if the corporation is associated with any other corporation at the end of the year.

1[v] A corporation that carries on a certified business in an eligible region, but not a corporation that is exempt from tax or a Crown corporation.

1[w] A corporation that carries on a stock exchange business or a securities clearing-house corporation in Quebec, and more than half of the salaries that are paid to employees of the corporation are paid to employees of an establishment located in Quebec.

2. *Operational Activities Requirements*

2[a] The eligible assets are manufacturing or processing equipment, electronic equipment, certain intangible assets, and equipment capable of providing high-speed Internet access in Quebec regions. For the purposes of computing the tax on capital, no deduction is allowed for intangible assets and equipment for high-speed Internet access. These assets must be used primarily to earn business income. In addition, they must begin to be used within a reasonable time after they are acquired and must be used solely in Quebec (or principally in Quebec in the case of electronic equipment) for a minimum period of 730 days. Finally, the assets must be new at the time of acquisition.

2[b] Eligible assets also include buildings or parts of buildings located in Quebec. Buildings must be new when acquired by the corporation and be directly or indirectly used by the corporation primarily to manufacture or process items for sale or lease.

2[c] A corporation that undertakes major investment projects in Quebec—that is, a project that gives rise to an increase in payroll of at least $4 million and involves an investment of at least $300 million (except that the requirement of an increase in payroll of at least $4 million is withdrawn in the case of a project to modernize or expand a production facility in Quebec), or an investment project that gives rise to an increase in payroll of at least $15 million. To qualify as a "major investment project," an investment project must be carried out in the primary sector, the manufacturing sector, or the propulsive service sector, excluding financial services, placement offices, and accounting services.

2[d] R & D activities.

2e Industrial design or fashion design.

2f Expenses incurred to support small businesses in gathering and processing strategic information and their cooperative research and innovation efforts with an eligible centre.

2g The development of a transactional Web site or a business-to-business transactions system.

2h A period of practical training served by an eligible trainee under the supervision of an eligible supervisor.

2i Prescribed financial international transactions.

2j Eligible communications expenditures in relation to an eligible road show, in order to achieve better valuation of its securities with financial market professionals and investors.

2k To develop a new generation of specialists in international transactions, more specifically through the hiring of recent graduates.

2l Solicitation activities carried on with persons who are not residents of Canada. Solicitation activities essentially consist in seeking new clients or new activities.

2m International logistics, aircraft maintenance and repair, supplemental vocational training in aviation, and light processing.

2n Innovative projects in emerging sectors of the new information and communications technology field such as multimedia, software, information highway, and telecommunications.

2o Quebec film and television production (Quebec content must be at least of 75 percent of the total content).

2p Film and television production services.

2q Dubbing services.

2r The production of sound recordings.

2s Musical productions.

2t Eligible digital productions created in Quebec.

2u The production of multimedia titles for commercial use. The titles must be published on electronic media, be controlled by software that allows interactivity, and include an applicable volume of at least three of the following four types of information: text, sound, static images, and animated images.

2v Activities related to the information technology sector or the multimedia sector.

2w Activities in the following advanced-knowledge technologies: information, communications, production, materials, biotechnology, and scientific and technological services.

2x Manufacturing and commercializing apparatus or equipment relating to the optics, photonics, or laser sector.

2[y] The development and supplying of products and services relating to e-business. Activities relating to the operation of e-business solutions consisting of, notably, the management, operation, maintenance, and development of systems, applications, and infrastructures, including technical assistance support.

2[z] Quebec book publishing.

2[aa] Clothing or footwear making or manufacturing.

2[bb] The business is operating either in the field of manufacturing or processing goods or in the environmental field.

2[cc] A business whose activities consist in: manufacturing and commercializing finished or semi-finished products from aluminum that has already undergone primary processing; manufacturing and commercializing specialized equipment for aluminum production or aluminum-processing businesses; or development and recycling of waste and residue resulting from aluminum processing.

2[dd] Obtaining a foreign investment fund management mandate.

2[ee] Manufacturing or processing.

2[ff] A business whose activities are related to the following sectors: wood processing, metal processing, food processing, energy, and other ecological sectors.

2[gg] An innovative project in the biotechnology sector.

2[hh] Manufacturing or commercializing products relating to the biotechnology and human health sector, or any other business whose activities are related to these fields.

2[ii] Activities relating to operations carried out as a stock exchange or as a securities clearinghouse corporation.

2[jj] The employee has held a university degree in a relevant discipline for no more than 48 months, or passed the first examination leading to the title of chartered financial analyst no more than 48 months earlier.

2[kk] Activities carried out on the NASDAQ stock market as an orders entry broker and those carried out as a market maker broker.

2[ll] The employee holds a university degree in a relevant discipline and has less than two years' experience in the area, or passed the first examination leading to the title of chartered financial analyst no more than 24 months earlier.

3. Amounts in Dollars/Computation of the Incentive

3[a] Exemption from employer contributions to the QHSF on the first $700,000 of salaries paid.

3[b] Exemption from income tax on the first $200,000 of business income.

3[c] Exemption from tax on capital on the first $3 million of paid-up capital.

3[d] 20 percent × accelerated depreciation deduction × the proportion between business done outside Quebec and business done in Quebec.

3[e] 25 percent × (accelerated depreciation deduction ÷ the proportion of business done in Quebec).

3[f] 40 percent of eligible salaries in respect of maximum salaries of $2 million, where the assets of the corporation and of corporations with which it is associated, for the preceding year, are less than $25 million. For corporations with assets between $25 million and $50 million, the 40 percent rate is gradually reduced to 20 percent.

3[g] 40 percent of the total amount of qualified expenditures paid to a related subcontractor. Where the subcontractor is not related, only 80 percent of the total amount of qualified expenditures are eligible.

3[h] 40 percent of eligible expenditures.

3[i] 40 percent of eligible expenditures, where the assets of the corporation and of corporations with which it is associated, for the preceding taxation year, are less than $25 million. For corporations with assets between $25 million and $50 million, the 40 percent rate is gradually reduced to 20 percent.

3[j] The least of: (1) 50 percent of the eligible solicitation expenditures incurred during the taxation year and the two preceding years; (2) 25 percent of the eligible fees; and (3) $150,000. The total amount of the tax credit may not exceed $300,000 calculated on a cumulative basis.

3[k] 40 percent of the eligible salaries.

3[l] 40 percent of the application software acquisition costs.

3[m] The maximum amount of the credit, for a taxation year, is limited to $40,000.

3[n] A maximum of $15 per hour for a trainee and $30 per hour for a supervisor.

3[o] 40 percent of fees incurred in relation to an eligible customs brokerage contract until December 31, 2001 (maximum $30,000). This rate goes down to 30 percent from January 1, 2002 to December 31, 2004 (maximum $24,000), and to 20 percent from January 1, 2005 to December 31, 2010 (maximum $16,000).

3[p] The eligible salary is limited to $75,000 per year. The maximum eligibility period for each employee is three years.

3[q] The least of: (1) 50 percent of the eligible solicitation expenditures incurred during the taxation year and the two preceding years; (2) 25 percent of the eligible fees; and (3) $75,000.

3[r] 33⅓ percent of eligible labour expenditures. The labour expenditures giving rise to this tax credit may not exceed 40.5 percent of the consideration paid for the execution of the dubbing contract, excluding GST and QST, so the tax credit may not exceed 13.5 percent of such costs.

3[s] The payroll rate of 4.26 percent can be reduced to a minimum of 2.70 percent.

3[t] 15 percent of the difference between salaries used as the base for computing all variants of R & D tax credits in the year and the reference amount.

3[u] A deduction is granted for two years, in the calculation of the capital tax, regarding eligible acquisition cost.

3[v] The tax credit is limited to $40,000 for the corporation and each corporation with which it is associated.

3[w] Where eligible expenditures are paid to a third party with which the corporation deals at arm's length, only 80 percent of the fees incurred are eligible expenditures.

3[x] Deduction in calculating taxable income.

3[y] Where the taxation year ends before January 1, 2002, 40 percent of eligible salaries in relation to the recognized business (maximum $15,000); where the taxation year begins after December 31, 2001 and ends before January 1, 2005, 30 percent of eligible salaries (maximum $12,000); where the taxation year begins after December 31, 2004 and ends before January 1, 2011, 20 percent of eligible salaries (maximum $8,000).

3[z] 25 percent of qualified expenditures.

3[aa] The amount of eligible salary of an eligible employee cannot exceed $37,500, calculated on an annual basis. This limit must be calculated by taking into account the time devoted to carrying out an eligible activity by an eligible employee.

3[bb] The total of this tax credit and of any government assistance in the form of a wage subsidy or tax credit based on salaries cannot exceed the lesser of 60 percent of eligible salary and $25,000, calculated on an annual basis.

3[cc] The tax credit for specialized equipment cannot be claimed for assets acquired after the first three years of the tax holiday. However, leasing costs or rent incurred during the entire five-year tax holiday may enable a corporation to claim the tax credit for specialized equipment.

3[dd] 40 percent of the capital cost or expense of leasing eligible equipment.

3[ee] 33⅓ percent eligible labour expenditures. The labour expenditures giving rise to this tax credit may not exceed 45 percent of the production costs, so the tax credit may not exceed 15 percent of such costs.

3[ff] For qualified computer animation or special effects, the rate of 33⅓ percent is increased by 11⅔ percent, with the result that the tax credit may reach 20.25 percent of the production costs.

3[gg] This tax credit may not exceed $2.5 million per production. In a co-production, the $2.5 million ceiling applicable to the tax credit must be allocated among the co-producing corporations that are eligible for the tax credit.

3[hh] 11 percent of eligible labour expenditures and 20 percent of qualified computer animation or special effects labour.

3[ii] For the production of certain French-language feature films and certain documentaries, the tax credit is equivalent to 45 percent of eligible labour expenditures. As is the case with other types of eligible production, labour expenditures may not exceed 45 percent of production costs, with the result that the tax credit is limited to a maximum of 20.25 percent of such costs.

3[jj] The tax credit granted for an eligible sound recording may not exceed $50,000. Where the sound recording is co-produced, the ceiling must be allocated among the co-producers.

3[kk] The tax credit granted for an eligible show may not exceed $300,000. When the musical production is co-produced, the ceiling must be allocated among the co-producers.

3[ll] The tax credit may not exceed a total of $8 million. The $8 million limit must be allocated among the members of a group of associated corporations.

3[mm] Multimedia titles intended for commercialization: 40 percent of eligible expenditures plus, if applicable, a premium for French equal to 10 percent of eligible expenditures.

3[nn] Other multimedia titles: 35 percent of eligible expenditures.

3[oo] For eligible productions realized outside the Montreal region, the tax assistance is increased to 55.5 percent for eligible labour expenditures. Labour expenditures may not exceed 45 percent of production costs, with the result that the tax credit is limited to a maximum of 25 percent of such costs.

3[pp] For the first five years, the rate of the tax credit for eligible salaries ($40,000 per employee, calculated on an annual basis) is 25 percent. As of the sixth year, the rate of the tax credit may be reduced, depending on whether the corporation has created a sufficient number of jobs in Quebec.

3[qq] 40 percent of eligible labour expenditures regarding the eligible preparatory costs of the book. However, these expenditures may not exceed 50 percent of the eligible preparatory costs of the book.

3[rr] 30 percent of eligible labour expenditures regarding the eligible printing costs of the book. However, these expenditures may not exceed 33⅓ percent of the eligible printing costs of the book.

3[ss] The tax credit may not exceed $500,000 per book or group of books. Where the book or group of books is co-published, the $500,000 limit must be shared among the publishing corporations that are eligible for this tax credit.

3[tt] 20 percent of the amount by which the corporation's salaries for the year exceed its salaries in the initial year.

3[uu] 40 percent of the amount by which the corporation's salaries for the year exceed its salaries in the base period.

3[vv] 50 percent of eligible expenditures. Professional fees and expenses incurred by the corporation to obtain National Association of Securities Dealers member status are limited to $50,000. Acquisition or leasing of technological equipment is limited to $200,000. Personnel hiring and training costs are limited to $100,000. Members of a group of associated corporations must share the cumulative limit applicable to each of the three components of this credit.

3[ww] The deduction a corporation may claim in calculating its taxable income will be calculated as if the corporation had claimed the total amount of discretionary deductions.

4. Expiry Date or Application Period

4[a] March 31, 2005.

4[b] At least until December 31, 2010.

4[c] December 31, 2001.

4[d] December 31, 2003.

4[e] March 31, 2002.

4[f] June 30, 2003.

4[g] December 31, 2005.

4[h] December 31, 2002.

4[i] The end of the fifth consecutive civil year.

4[j] The end of the five-year tax holiday period.

5. Certification Requirements

5[a] Certificate from Investissement-Québec. Investissement-Québec was created in 1998 as a government corporation. Its purpose is to promote investment growth in Quebec by corporations. Detailed information on programs administered by Investissement-Québec can be found on the Web at http://www.invest-quebec.com/index-en.html.

5[b] Certificate from the Société de développement des entreprises culturelles.

5[c] Certificate from the minister of finance.

5[d] Certificate from the minister of industry and trade.

5[e] Certificate from the minister of research, science, and technology.

5[f] Certificate from the Société québécoise de développement de la main-d'oeuvre.

5[g] Favourable advance tax ruling from Revenue Quebec.

5[h] Annual certificate from Investissement-Québec.

6. Geographical Zone Requirements

6[a] Territory of the City of Montreal.

6[b] CDTI of Hull, Laval, Montreal, Sherbrooke, and Quebec, and the Centre de développement des biotechnologies de Laval.

6[c] Montreal international foreign trade zone at Mirabel.

6[d] Designated buildings located in Montreal, in the quadrangle formed by de la Commune, Duke, William, and King streets.

6[e] Designated buildings located in downtown Quebec City.

6[f] Quebec City region.

6[g] Buildings to be constructed in the quadrangle formed by de la Montagne, Saint-Antoine, and Lucien L'Allier streets and René-Lévesque Boulevard, as well as three office towers to be built, linked to the Molson Centre in Montreal.

6[h] Designated buildings located in the following regions: Bas-Saint-Laurent, Saguenay-Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie-Îles-de-la-Madeleine, Mauricie, Chaudières-Appalaches, Centre-du-Québec, Lanaudière, Laurendites, and Montérégie.

6[i] The Angus Technopole is located within the city of Montreal.

6[j] Saguenay-Lac-Saint-Jean administrative region.

6[k] Parc scientifique et de haute technologie de Laval.

6[l] Administrative regions of Bas-Saint-Laurent, Saguenay-Lac-Saint-Jean, Mauricie (in whole or in part), Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, and Gaspésie-Îles-de-la-Madeleine.

6[m] For equipment capable of providing high-speed Internet access. These assets must be used in designated regions—namely, all the administrative regions of Quebec, with the exception of Montreal, Laval, and the Communauté urbaine de Québec.

6[n] Centre de développement des biotechnologies de Laval.

7. Rules Governing Claims for Multiple Credits

7[a] The tax credit cannot be used with another tax credit.

7[b] In a recent round table, the ministère du Revenu du Québec stated that a corporation exempt from taxation because of the five-year ITDC tax holiday is not allowed to claim both the R & D tax credit and the ITDC credit in relation to the same employee. "Table ronde avec Revenu Québec," in *Incitatifs fiscaux québécois : 2000 Journée d'études fiscales* (Toronto: Canadian Tax Foundation, 2000), tab 6, at question 7.

8. Rules Regarding the Taxability of the Incentive

8[a] The tax credit is deemed not to be government assistance for the purpose of TA part I tax.

8[b] The supplementary deduction of 25 percent will not be subject to recapture when the asset is disposed of.

9. Anti-Avoidance Rules

9 A specific anti-avoidance rule exists for this credit.

10. Other Considerations

10[a] This credit is not discussed further in this article.

10[b] The tax credit may be applied against any tax instalments that a corporation may be required to make for income tax and tax on capital.

10[c] To get a tax credit, the corporation must file the prescribed form before the day that is 12 months after the corporation's due date for filing its corporate income tax return.

10[d] The eligible expenditures must be reduced by the amount of any assistance received.

10[e] The tax credit is deemed not to be government assistance for the purpose of its own calculation.

10[f] Specific rules or taxes are applicable when there is a refund of expenses for which a credit had been previously granted, when requirements have not been respected, or when a certificate is subsequently rescinded.

10[g] Amounts received from certain authorities are deemed not to be government assistance.

10[h] Investment tax credits within the meaning of subsections 127(5) and 127(6) of the federal Income Tax Act, RSC 1985, c. 1 (5th Supp.), as amended, are deemed not to be government assistance.

10[i] This measure was introduced in the March 29, 2001 budget speech.

10[j] This measure was introduced in *Bulletin d'information* 2001-3, April 9, 2001.

APPENDIX B: QUEBEC LEGISLATIVE REFERENCES TO INCENTIVES FOR CORPORATIONS

Reference	Description
Taxation Act	
156.1	Additional 20% deduction for depreciation
156.5	Supplementary 25% deduction for depreciation
737.14	Deduction for international financial centres
737.18.3	Deduction in respect of a qualified investment fund[a]
737.18.11	Deductions relating to the creation of the international trade zone at Mirabel
771(1)h)	Tax holiday for new corporations
771.12	Tax holiday for an innovative project in an information technology development centre
Budget 2000-2001	Tax holiday for major investment projects
Budget 2001-2002	Tax holiday for small and medium-size manufacturing enterprises in remote resource regions
BI 2001-3	Tax holiday for stock exchanges and securities clearinghouse corporations in Montreal
1029.7	Credit for scientific research and experimental development
1029.8.6	Credit for university research and for research carried on by a public research centre or a research consortium
1029.8.9.0.4	Credit for fees and dues paid to a research consortium
1029.8.10	Credit for pre-competitive research or environmental technology innovation
1029.8.16.6	Additional credit in respect of scientific research and experimental development
1029.8.21.7	Credit for the use of less polluting dry-cleaning technology
1029.8.21.22	Credit for technological adaptation services
1029.8.21.42	Credit to promote the development and integration of e-commerce solutions
1029.8.33.6	Credit for on-the-job training periods
1029.8.33.13	Credit in respect of tip reporting
1029.8.35	Credit for Quebec film productions
1029.8.36.0.0.2	Credit for film dubbing
1029.8.36.0.0.5	Film production services credit
1029.8.36.0.0.8	Credit for the production of sound recording
1029.8.36.0.0.11	Credit for the production of musical performances
1029.8.36.0.0.14	Credit for book publishing
1029.8.36.0.2	Credit for multimedia titles (part 1)
1029.8.36.0.3.4	Credit for multimedia titles (part 2)

(Appendix B is continued on the next page.)

Appendix B Continued

Reference	Description
1029.8.36.0.3.9	Credit for multimedia titles (general)
1029.8.36.0.3.19	Credit for corporations specialized in the production of multimedia titles
1029.8.36.0.3.30	Credit for corporations established in the Multimedia Complex
1029.8.36.0.3.40	Credit for corporations established at the Centre national des nouvelles technologies de Québec
1029.8.36.0.5, 1029.8.36.0.6	Credits to promote the development of information technologies
1029.8.36.0.19	Credits to foster the development of the new economy
1029.36.0.40	Credit for wages in connection with the creation of the international trade zone at Mirabel
1029.8.36.0.57	Credit for customs brokerage services in connection with the creation of the international trade zone at Mirabel
1029.8.36.0.73	Credit for acquisition costs or rental expenses in connection with the creation of the international trade zone at Mirabel
1029.8.36.5, 1029.8.36.7	Design credit
1029.8.36.53	Credit in respect of environmental trusts
1029.8.36.55.1	Credit for the construction or conversion of vessels
1029.8.36.59.2	Credit for railway undertakings
1029.8.36.72.2	Credit for job creation in the optics industry in the Quebec area
1029.8.36.72.16	Credit for job creation in the aluminum industry in the Saguenay-Lac-Saint-Jean area
1029.8.36.72.30	Credit for job creation in the manufacturing or environmental sector in the Angus Technopole
1029.8.36.76	Credit for job creation in the clothing and footwear industry
1029.8.36.90	Credit for investment fund creation[a]
1029.8.36.96	Credit relating to fund managers
1029.8.36.104	Credit for solicitation expenditures
1029.8.36.116	Credit for specialist training
1029.8.36.129	Credit for solicitation expenditures in respect of a foreign investment fund
1029.9	Credit for the taxi industry
BI 2000-3	Credit for corporations established in Cité du commerce électronique
BI 2000-4	Credit for the maintenance of racehorses
BI 2000-4	Credit for hiring junior financial analysts specializing in securities of Quebec corporations
BI 2000-4	Tax assistance regarding communications between corporations and investors

(Appendix B is continued on the next page.)

Appendix B Continued

Reference	Description
BI 2000-4	Credit for the construction of strategic buildings in the international trade zone at Mirabel
BI 2000-5	Credit for the creation of eligible digital productions
BI 2000-8	Credit for Gaspésie and certain maritime regions of Quebec
Budget 2001-2002 . . .	Credit regarding exploration expenditures
Budget 2001-2002 . . .	Credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain
Budget 2001-2002 . . .	Credit for eligible specialized equipment for the Centre de développement des biotechnologies de Laval
Budget 2001-2002 . . .	Credit for processing activities in resource regions
BI 2001-3	Credit for hiring junior financial analysts specializing in financial derivatives
BI 2001-3	Credit fostering the participation of investment dealers on the NASDAQ stock market
1137 b.2), 1137 b.2.1)	Deduction for the acquisition or transformation of vessels
1137 b.3)	Exemption from tax on capital for new investments
1137 c)	Exemption from tax on capital for a taxpayer operating an international financial centre
1137 d)	Exemption from tax on capital regarding the creation of the international trade zone at Mirabel
1138.0.1	Exemption from tax on capital for new corporations
1138.2.1	Exemption from tax on capital for an innovative project in an information technology development centre
Budget 2000-2001 . . .	Exemption from tax on capital for major investment projects
Budget 2001-2002 . . .	Exemption from tax on capital for small and medium-size manufacturing enterprises in remote resource regions
BI 2001-3	Exemption from tax on capital for stock exchanges and securities clearinghouse corporations in Montreal
Schedule B, class 1, paragraph 2	Accelerated depreciation
An Act Respecting the Régie de l'assurance maladie du Québec	
Section 34	Reduction of employer contributions to QHSF for corporations with payroll of $5 million or less
Section 33	Exemption from employer contributions to QHSF for a taxpayer operating an international financial centre
Section 34	Exemption from employer contributions to QHSF for new corporations
Section 34	Exemption from employer contributions to QHSF for an innovative project in an information technology development centre

(Appendix B is concluded on the next page.)

Appendix B Concluded

Reference	Description
Section 34	Exemption from employer contributions to QHSF regarding the creation of the international trade zone at Mirabel
Budget 2000-2001 . . .	Exemption from employer contributions to QHSF for major investment projects
Budget 2001-2002 . . .	Exemption from employer contributions to QHSF for small and medium-size manufacturing enterprises in remote resource regions
BI 2001-3	Exemption from employer contributions to QHSF for stock exchanges and securities clearinghouse corporations in Montreal

[a] The tax incentive is not included in this article because the fund had to be established before April 1, 2001.

Sources: Taxation Act, RSQ, c. I-3; Quebec, Bill 175 (1st session, 36th Legislature), An Act To Amend the Taxation Act, the Act Respecting the Quebec Sales Tax and Other Legislative Provisions, first reading December 20, 2000; Québec, Ministère des Finances, 2001-2002 Budget, Budget Speech, March 29, 2001; An Act Respecting the Régie de l'assurance maladie du Québec, RSQ, c. R-5; and bulletins d'information up to 2001-4.

Notes

1 Québec, Ministère des Finances and Ministère du Revenu, *Tax Expenditures: 1999 Edition* (Québec: Ministère des Finances, 1999), table 3. This document is available on the Web at http://www.finances.gouv.qc.ca/anglais/documents/autres-doc/PDF/depensesfiscalesang.PDF.

2 Ibid., at 2.

3 Percentages have been calculated from the dollar amounts, ibid., at 3. The dollar values are estimates, not final values. QHSF contributions are overstated because they include contributions by public employers. Final figures are available only for 1997. In that year, QHSF contributions paid by corporations were treated separately. The respective proportions of total corporate tax revenue were: income taxes, 28.7 percent; tax on capital, 29.3 percent; and QHSF contributions, 42 percent.

4 Ibid., at table 3. According to another source, reduced QHSF rates cost a little over $100 million in 1999. See *Focus on Jobs*, infra note 7, at iv and v.

5 Supra note 1, at table 3. These numbers are estimates, not final figures.

6 Gouvernement du Québec, Conseil de la science et de la technologie, *L'aide fiscale à la R-D: un outil important pour le développement des entreprises du Québe*c, report submitted to the Commission sur la fiscalité et le financement des services publics (Québec: Conseil de la science et de la technologie, November 1996), v and vi. This document is available on the Web at http://www.cst.gouv.qc.ca/ftp/fiscalite.pdf.

7 Gouvernement du Québec, Ministère des Finances, *Focus on Jobs: Shaping an Innovative Economy: Corporate Taxation Reform* (Québec: Ministère des Finances, 1998), 5-6. This document is available on the Web at http://www.finances.gouv.qc.ca/anglais/budget/1998-1999/PDF/fiscenan.pdf. Note that these numbers refer to corporations and not to businesses. Given that this article focuses on tax incentives to corporations, this is the more relevant reference. Nevertheless, it should be pointed out that businesses include not only corporations but all unincorporated firms (individuals and partnerships) and the self-employed. Using this much broader concept, the latest figures show that in 1996 42.8 percent of salaried employees worked in businesses with fewer than 100 employees. This percentage has been computed from figures found in Gouvernement du Québec, Ministère de l'Industrie et du Commerce and L'Institut de la Statistique du Québec, *Les PME au Québec—État de la situation: Édition 1999* (Québec: Ministère de l'Industrie et du Commerce, March 2000), 49, table 2.1.1. This document is available on the Web at http://www.mic.gouv.qc.ca/dgae/PME-99/index.html.

8 See Donald J.S. Brean and Jeremy A. Leonard, "Technology, Taxation and Canada's Competitiveness" (1998), vol. 4, no. 1 *Choices* 1-32 (Institute for Research on Public Policy); and Canada, *Report of the Technical Committee on Business Taxation* (Ottawa: Department of Finance, April 1998), 5.11-22.

9 Brean and Leonard, supra note 8, at 13.

10 *Report of the Technical Committee on Business Taxation*, supra note 8, at 5.15-17.

11 Gouvernement du Québec, Ministère des Finances, *Focus on Jobs: Shaping an Innovative Economy: An Integrated Fiscal Strategy for the Knowledge-Based Economy* (Québec: Ministère des Finances, 1999). This document is available on the Web at http://www.finances.gouv.qc.ca/anglais/budget/1999-2000/PDF/strat-an.pdf.

12 Ibid., at 2.

13 Ibid., at iii. "Knowledge-based economy" is loosely defined in the supplementary paper as representing activities connected with knowledge and information. In a more recent study, the Quebec government proposes criteria that can be used to separate industries into three groups, according to their degree of knowledge-intensive activities. This study confirms that, between 1984 and 1999, Quebec employment in industries with high levels of knowledge-based activities grew at a faster rate than employment in industries requiring less knowledge. See Gouvernement du

Québec, Ministère de l'Industrie et du Commerce, *L'économie du savoir* (Québec: Ministère de l'Industrie et du Commerce, January 2001), 3. This document is available on the Web at http://www.mic.gouv.qc.ca/economie-savoir/savoir.pdf.

14 Supra note 11, at 27.

15 Ibid., at 32-33.

16 Supra note 6, at 17.

17 Daniel Lebeau, *Les mesures d'aide fiscale à la R-D et les entreprises québécoises* (Québec: Conseil de la science et de la technologie, October 1996). For more information on the B index discussed in this paragraph, see Statistics Canada, *Measuring the Attractiveness of R&D Tax Incentives*, catalogue no. 88-003-XPE000025124.

18 *Report of the Technical Committee on Business Taxation*, supra note 8.

19 KPMG, *A Comparison of Business Costs in Major North American Cities for 12 Manufacturing and 6 Service Industries* (Québec: Ministère des Finances, September 1999). This document is available on the Web at http://www.finances.gouv.qc.ca/anglais/documents/autres-doc/pdf/12%20Manufacturing%20Ang.pdf.

20 When costs for the six service industries are compared, Calgary has the lowest labour costs and Montreal the next lowest. However, when all 13 cities are compared, Montreal has the lowest office lease costs. Ibid., at 25-26.

21 Ibid., at 22, 23, 25, 27, and 28. The manufacturing sectors are: aerospace parts, chemical manufacturing, electronics manufacturing, food processing, medical devices, metal fabrication, nonferrous metals, paper manufacturing, pharmaceutical manufacturing, plastic products manufacturing, telecommunications equipment manufacturing, and transportation equipment manufacturing. The service sectors are: advanced software development, call centre, head office, international banking centre, multimedia content development, and packaged software.

22 Location-sensitive costs for manufacturing are: total labour costs; road, air, and sea freight; electricity; lease costs; telecommunications; interest; depreciation; subsidies and grants; property taxes; transaction taxes; income taxes (effective tax rate); and other taxes. Ibid., at 33.

23 Ibid., at 38 and 78. Averages were computed by the authors.

24 Ibid., at 39 and 85. Averages were computed by the authors.

25 Ibid., at 34. Averages were computed by the authors.

26 Ibid., at 13. Note that costs are thus standardized across cities for any given industry, since the labour figures assume that the work distribution patterns are simply replicated. Note also that taxes are included in the list of location-sensitive costs (supra note 22). For definitions and standards, see the KPMG study, ibid., at 8.

27 Supra note 11, at 31, table 12.

28 Marcel Dagenais, Pierre Mohnen, and Pierre Therrien, *Les firmes canadiennes répondent-elles aux incitations fiscales à la recherche-développement?* (Québec: Conseil de la science et de la technologie, August 1996). This document is available on the Web at http://www.cst.gouv.qc.ca/ftp/Efficacite.pdf.

29 Ibid., table 1, at 12.

30 Supra note 11, at 35, table 8. According to a later update, the cumulative total jobs created through those three programs and two other, more recent programs (New Economy and Quebec CNNT) had risen to 9,715, located in 173 firms that had obtained the necessary certification papers. See Québec, Ministère des Finances, 2000-2001 Budget, Additional Information on the Budgetary Measures, March 14, 2000, section 2, at 20.

31 Supra note 11, at 33, diagram 4.

32 Ibid., at 34.

33 Ibid., at 35-39.

34 Taxation Act, RSQ, c. I-3 (herein referred to as "TA").

35 TA part I, book IX, title III, ch. III.1, section 1029.6.0.1a). See also TA divisions II to II.6.2, II.6.5, and II.6.8 to II.6.12.

36 Quebec, Bill 175 (1st session, 36th Legislature), An Act To Amend the Taxation Act, the Act Respecting the Quebec Sales Tax and Other Legislative Provisions, first reading December 20, 2000.

37 For a more detailed description of this credit, see the Investissement-Québec Web site at http://www.invest-quebec.com/index-en.html.

38 Part of the computation process also applies to the ITDC. However, the ITDC process is unique in that the credit cannot be claimed concurrently with any other credit. Therefore, the salary paid to a given employee cannot be used for both the ITDC credit and another credit. A choice will have to be made to determine the credit yielding the best return to the corporation.

39 An employee will be deemed to devote all of his time to eligible activities if he devotes 90 percent or more of his time to eligible activities.