Québec Budget 2020-2021

March 24, 2020

On March 10, 2020, Premier François Legault's government revealed its budget for the 2020-2021 fiscal year (the Budget). Minister of Finance Eric Girard tabled the Budget, which aims to continue the Coalition Avenir Québec's (the CAQ) efforts to increase Québec's economic potential by building a greener economy, creating wealth and improving services to meet the needs for all of Québec. The following outlines certain important measures introduced in the Budget.

Tax credit for investments and innovation (C3i)

This tax credit for investments and innovation will be granted to a qualifying corporation that acquires manufacturing or processing equipment, computer equipment, or management software packages between March 10, 2020 and before 2025. A tax credit of up to 20 per cent will be offered to these corporations, depending on the location and the economic wellbeing measured by the provincial government for the area where the investments are made. Eligible investments are those that exceed $12,500 for the purchase of manufacturing and processing equipment, as well as those that exceed $5,000 for the purchase of hardware and management software packages.

Corporations must run a business in Québec in order to be eligible for this tax credit. Additionally, this credit will be fully refundable for small- and medium-sized enterprises (SMEs) and non-refundable for large businesses. Size is based on the qualifying corporation's assets and gross income. Furthermore, the expenses for which the C3i credit is claimed must be incurred by the time the qualified corporation files for the tax credit. As the new C3i credit comes into force, the refundable tax credit relating to information technology integration will be withdrawn.

Incentive deduction for the commercialization of innovation in Québec (IDCI)

The Budget introduces the new IDCI with the goal of incentivizing and retaining intellectual property developed in Québec. In order to be eligible for the IDCI, a corporation must have a business establishment in Québec, must commercialize its intellectual property within the province of Québec and must have incurred research and development (R&D) expenses in Québec. This new deduction will come into effect for taxation years beginning after December 31, 2020. In addition, as of January 1, 2021,

the IDCI will replace the deduction for innovative corporations (DIC). Corporations who currently benefit from the DIC will also be eligible for the IDCI.

Intellectual property that qualifies for the IDCI refers to all incorporeal property that includes:

- An invention protected by a patent or a certificate of a supplementary protection;
- An invention protected by a plant breeder's rights (i.e., cannabis); or
- Software protected by copyright.

The revenues generated from the commercialization of the qualifying intellectual property will be taxed at a rate of two per cent, compared to the general rate of 11.5 per cent.

Elimination of the expenditure exclusion threshold for certain income tax credits for scientific research and experimental development (SR&ED)

In December 2014, the Québec government announced an SR&ED expenditure exclusion threshold, whereby no tax assistance would be granted to a taxpayer's otherwise qualified SR&ED expenditures that fall below the applicable threshold for that taxation year. The threshold corresponded to an amount of $50,000 that increases linearly to $225,000 as the taxpayer's asset value increases between $50 million and $75 million. The legislation will be amended to eliminate the exclusion threshold for certain qualified expenditures, namely those relating to:

- A university research contract;
- An eligible research contract entered into with an eligible public research centre;
- A pre-competitive research project carried out in private partnership; or
- Fees or dues paid to an eligible research consortium.

The aforementioned changes will apply to expenditures incurred for a taxation year that begins after March 10, 2020 and apply to SR&ED activities carried out after that date.

Introduction of the synergy capital tax credit

This tax credit aims to support the growth of innovative businesses by encouraging investments in the share capital of qualified Québec SMEs. The qualified corporations must have operated in eligible sectors for at least one year. These eligible sectors include the life science, manufacturing, processing, green technology, artificial intelligence and information technology sectors. Furthermore, the qualified SMEs must be Canadian-controlled private corporations (CCPC) with a permanent establishment in Québec, as well as a paid-up capital of less than $15 million and gross income of less than $10 million per year.

Eligible investors are corporations with a business establishment in Québec who deal at arm's length with the eligible SME. The eligible investor's primary business must not be investing in or financing businesses.

Eligible investors that put money into in qualified SMEs will be entitled to claim a non-refundable 30 per cent tax credit on the amount paid for the subscription of shares, up to a maximum of $225,000 per year. Eligible investments will therefore be limited to $750,000 annually. Furthermore, the corporation must retain the subscribed shares for a minimum of five years following their purchase. The synergy capital tax credit may be applied to any eligible share subscriptions carried out after December 31, 2020.

Introduction of a refundable tax credit for SMEs for persons with a severely limited capacity for employment

This refundable tax credit will be granted to qualified corporations who employ individuals with a severely limited capacity for employment. The tax credit will be equal to the amount of the employer contributions paid by the corporation in respect of such an employee.

A corporation may qualify for the tax credit if they have an establishment in Québec and if they carry on a business in Québec whose yearly paid-up capital is less than $15 million. Furthermore, the corporation's total remunerated hours for any given year must exceed 5,000 hours, except if the corporation operates in the primary or manufacturing sectors.

These changes will apply to taxation years ending after December 31, 2019.

Rebate program for the acquisition of an electric vehicle

The Budget states that the Québec government will continue financing rebates of up to $8,000 for the purchase of an all-electric vehicle and $4,000 for the purchase of an all-electric used vehicle until March 31, 2021. However, the rebate will only apply to vehicles with a manufacturer suggested retail price of less than $60,000.

The "Roulez vert" program will be extended until March 31, 2026. Details of the exact rebates, however, will be provided at a later date.

Increased transparency measures for beneficial ownership

The Budget also announced a new requirement for beneficial owners of businesses carrying on activities in Québec to disclose their ownership on the *Registraire des entreprises du Québec* (the REQ). The notion of beneficial ownership will be enlarged to include individuals holding or exercising, at least 25 per cent, either directly or indirectly, of the voting shares or the value of the business, as well as individuals who have an influence in the control of the corporation.

Conclusion

Overall, the CAQ's second budget increases program spending by 5.1 per cent from the previous fiscal year and projects a $2.7 billion surplus. The government hopes that spending increases will stimulate the provincial economy amid disruptions in global supply chains due to the spread of COVID-19.

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