

## **RESOURCE REGIONS CALENDAR YEARS 2010 AND AFTER**

### **Refundable Tax Credit for Processing Activities in the Resource Regions NEW SYSTEM**

#### **SUMMARY**

A corporation that, as at December 31, 2009, is eligible for the tax credit for processing activities in the resource regions is eligible, as of calendar year 2010, for the new system – tax credit for processing activities in the resource regions (hereafter “New RR System”), unless such corporation irrevocably elects to remain eligible for the refundable tax credit for processing activities in the resource regions (hereafter “Old RR System”).

In addition, a corporation eligible for the New RR System may, if it satisfies the conditions otherwise applicable to that effect, claim the investment tax credit for manufacturing and processing equipment (hereafter “ITC”) for eligible investments it makes as of the taxation year during which it becomes eligible for the New RR System and before January 1, 2016.

An eligible corporation may thus benefit from an increased rate of the investment tax credit of up to 20%, 30% or 40% of the amount of the eligible investment, depending on where such investment is made. For more information on the ITC, see your tax advisor or contact Revenu Québec.

#### **Nature of Tax Assistance and Calculation Method**

The New RR System is a refundable tax credit based on the increase in payroll attributable to eligible employees of an eligible corporation.

The credit is calculated as follows:

$$\text{Applicable tax credit rate multiplied by} \left( \begin{array}{l} \text{Total eligible wages paid by} \\ \text{the corporation to its eligible} \\ \text{employees for the calendar} \\ \text{year}^1 \end{array} - \begin{array}{l} \text{All eligible wages paid by the} \\ \text{corporation to its eligible} \\ \text{employees for its base calendar} \\ \text{year} \end{array} \right)$$

<sup>1</sup> As was the case in the Old RR System, the total of the wages paid by a corporation to its eligible employees for the calendar year used for the calculation of the tax credit is adjusted. Accordingly, the total wages paid by a corporation to its eligible employees must be reduced by 6% for calendar year 2010, by 8% for calendar year 2011, by 10% for calendar year 2012, by 12% for calendar year 2013, by 14% for calendar year 2014 and by 16% for calendar year 2015.

The rate of the credit and the calendar years for which the corporation eligible for the New RR System may claim the tax assistance depend on the resource region where the recognized business is carried on:

Regions and territories covered	Calendar years of eligibility		
	2010	2011 to 2012	2013 to 2015
<b>Remote regions<sup>2</sup></b>			
Abitibi-Témiscamingue	20%	10%	10%
Côte-Nord	20%	10%	10%
Nord-du-Québec	20%	10%	10%
<b>Intermediate regions</b>			
Eastern Bas-Saint-Laurent: La Matapédia, Matane and La Mitis	20%	10%	10%
Mauricie: La Tuque, Mékinac and Shawinigan	20%	10%	10%
Saguenay-Lac-Saint-Jean: Le Domaine-du-Roy, Maria-Chapdelaine and Fjord-du-Saguenay	20%	10%	10%
Antoine-Labelle (Laurentides) as well as Vallée-de-la-Gatineau and Pontiac (Outaouais)	20%	10%	10%
<b>Other resource regions</b>			
Saguenay-Lac-Saint-Jean Saguenay and Lac-Saint-Jean-Est	20%	10%	-
Western Bas-Saint-Laurent: Rivière-du-Loup, Rimouski-Neigette, Témiscouata, Kamouraska and Les Basques	20%	10%	-
Mauricie: Trois-Rivières, Maskinongé and Les Chenaux	20%	10%	-

Special rules apply when an eligible corporation, as the case may be:

- has both an establishment in an eligible region and another establishment elsewhere in Québec;
- is associated with one or more other corporations;
- carries out activities previously carried out by another entity such as a corporation, partnership, or person (transfer of activities from one person to another), as well as in the event of a merger or amalgamation or of the liquidation or winding-up of corporations.

Where a corporation holds more than one eligibility certificate for one of the tax credits available in the regions, the *Taxation Act* stipulates that the calculation of the increase in payroll attributable to eligible

<sup>2</sup> For the Gaspésie-Îles-de-la-Madeleine region, the manufacturing activities and other activities covered by this tax credit will be eligible for the tax credit for Gaspésie and certain maritime regions as of January 1, 2010. See the detailed fact sheet on the new system for this tax credit.

employees under any of these credits must be carried out on a consolidated basis starting from the same base calendar year.

Accordingly:

- a corporation that holds more than one eligibility certificate for this tax credit, the refundable tax credit for Gaspésie and certain maritime regions of Québec and/or the refundable tax credit for Aluminum Valley must calculate the increase in payroll attributable to all its employees carrying out eligible activities for any of these credits;
- this increase must be determined using the eligible wages paid to such eligible employees for the base calendar year applicable for the first eligibility certificate issued to the corporation.

Special considerations apply when a corporation concurrently carries out activities that are eligible for this tax credit and activities related to the marine biotechnology or sea farming sectors. For more information, see the detailed fact sheet on the new system for the tax credit for Gaspésie and certain maritime regions of Québec.

For more information on the calculation details of the New RR System, see your tax advisor or contact Revenu Québec.

### **Eligibility of the Corporation and of Its Activities (Recognized Business)**

To be eligible for this tax credit, the corporation must, as at December 31, 2009, be eligible for the Old RR System and hold in that regard a valid eligibility certificate issued under this tax measure. Accordingly, the corporation must have started carrying on its recognized business no later than March 31, 2008, and have filed its initial eligibility certificate application no later than December 31, 2009.

#### **ELIGIBLE ACTIVITIES**

A recognized business, for a given taxation year, means a business carried on by the corporation for which Investissement Québec<sup>3</sup> has issued an eligibility certificate and that carries out activities in the following sectors:

#### **Wood**

- Manufacturing and processing of finished or semi-finished products from wood, including drying and planing
- Manufacturing and processing of palette components (as of calendar year 2002 only)
- Manufacturing and processing of paper and cardboard products

For example, manufacturing of containers, stationery items, furniture, engineered wood, etc.

#### **Energy**

- Environmentally friendly production of non-conventional energy from biomass or hydrogen
- Manufacturing of products for the production or use of energy

#### **Food**

- Manufacturing and processing of food (for example, slaughtering of animals, manufacturing of animal feed, preserving, etc.)

---

<sup>3</sup> Either under the old system, or under the New RR System or in exceptional cases involving the reorganization of one eligible corporation with another (merger, winding-up or other event).

## Metals

- Manufacturing and processing of finished or semi-finished products from metal (for example, manufacturing of hardware items, automobile parts, metal frames, etc.)

## Other sectors

- Manufacturing of finished or semi-finished products from peat or slate
- Manufacturing and processing of finished or semi-finished products from precious stones or fine stones, including the setting of such stones and the manufacturing of jewellery
- Development and recycling of waste and residual materials resulting from natural resource development or processing
- Freshwater aquaculture
- Printing and publishing, including activities relating to typesetting, printing, collating, folding and bundling
- Manufacturing and processing of finished or semi-finished products from non-metallic minerals (as of calendar year 2002 only)

In general, the activities covered by this credit also include:

- commercialization activities incidental to the activities of the recognized business for the years in which they are eligible;
- marketing activities incidental to the manufacturing or processing of the product by a corporation associated with the eligible corporation, for the years during which such activity is eligible.

## EXCLUDED ACTIVITIES

Activities **excluded** for the purposes of this tax credit include activities relating to the manufacturing of paper pulp, paper or cardboard, to the primary processing of metals (ingots, plates, rods, sheets, etc.), to the manufacturing of structural lumber or similar products, including sawing of logs or bolts, and to food manufacturing and processing activities carried out in particular in restaurants, hotels, shopping centres (fast-food counters), supermarkets and grocery stores.

Installation activities ancillary to the manufacturing or processing activities carried out by a corporation or an associated company are specifically excluded for the purposes of this tax credit.

Similarly, the activities covered<sup>4</sup> by the refundable tax credit for Aluminum Valley and by the refundable tax credit for Gaspésie and certain maritime regions of Québec are not recognized as eligible activities of a certified business under the New RR System. In particular, this applies to the manufacturing of wind turbines<sup>5</sup>, which activities are recognized only with regard to the tax credit for Gaspésie and certain maritime regions of Québec.<sup>6</sup>

## Eligible Employee

To be eligible, the employee must:

- be an employee of an establishment of an eligible corporation located in a target region or territory;

AND

- allocate at least 75% of his duties to carrying out, supervising or directly supporting activities of the recognized business, which does not include, in particular, duties relating to general administration.

---

<sup>4</sup> Both under the old system and the new system for each of these credits respectively.

<sup>5</sup> The manufacturing of a wind turbine includes the manufacturing of the main components.

<sup>6</sup> Both under the old system and the new system relating to this tax measure.

A corporation may hold more than one eligibility certificate regarding various recognized businesses it carries on. In that case, an employee may qualify as an eligible employee in relation to each of the recognized businesses of his employer when at least 75% of his duties are devoted to carrying out, supporting or directly supervising the activities of such recognized businesses carried on by the eligible corporation, considered as a whole.

For example, an employee who devotes 40% of his time to supporting the activities of recognized business A and 60% to supporting the activities of recognized business B may qualify as an eligible employee for the purposes of the tax credits in question. For the purposes of calculating the tax credit for calendar years 2010 to 2012, the wages of such employee are divided among the various recognized businesses of the eligible corporation according to the time the employee allocates directly to each of them. In this example, the eligible corporation calculates the increase in payroll of business A by including 40% of the eligible wages paid to the employee and that of business B by including 60% of the eligible wages paid to him.

As mentioned above, the calculation is made on a consolidated basis.

Lastly, qualification of employees must be established for each period during a calendar year. A period is defined as a pay period. To be certified by Investissement Québec, the eligible pay period must be completed and end in the calendar year covered by the annual eligibility attestation.

### **Employee Assigned to Research and Development Activities**

Research and development (R&D) activities are not eligible. Accordingly, an employee who devotes at least 25% of his time to R&D activities during a given pay period is not eligible for the tax measure for that period.

### **Eligible Salary**

The eligible salary corresponds to employment income generally calculated under the *Taxation Act* but does not include:

- *for an employee whose activities relate to commercialization*, director's fees, bonuses, remuneration for work done in excess of normal work hours and taxable benefits that must be included in the employee's income;
- *for other employees*, director's fees, bonuses, performance premiums, remuneration for work done in excess of normal work hours, commissions and taxable benefits that must be included in the employee's income.

The wages for which the tax credit is claimed must have been paid at the time of filing the claim with Revenu Québec.

### **Nature of the Tax Credit and Claim**

This tax credit is a refundable tax credit. When the credit exceeds the tax payable, the corporation can obtain a refund of such excess. The tax credit is calculated and claimed at the end of the taxation year when filing the corporation's tax return. In addition, the tax credit obtained is taxable.

To claim the tax credit regarding a given calendar year, an eligible corporation must enclose with its tax return for the taxation year in which such calendar year ends the form prescribed by Revenu Québec, a copy of the initial eligibility certificate issued by Investissement Québec, a copy of the annual attestations regarding employees (for the calendar year of the claim and for the base calendar year), as well as the annual eligibility certificate for activities.

In all cases, Investissement Québec considers an application for certificates and annual attestations to be complete if it is signed, if all the sections of the form are duly completed and if it is accompanied

by all the documentation required in the form including, if applicable, a power of attorney authorizing a representative to act on behalf of the corporation.

### **Base Calendar Year**

For the purposes of determining the increase in the eligible payroll of the corporation under the New RR System, the reference calendar year of an eligible corporation is the one that applied in determining the tax credit for processing activities in the resource regions for calendar year 2009 or that would have applied had the corporation claimed such tax credit for calendar year 2009.

If a corporation holds more than one eligibility certificate for one or more tax credits available in the regions, it must consider a single base calendar year, i.e. the one applicable to the first eligibility certificate issued to the corporation.

### **Election to Benefit from the Old System**

A corporation that, as at December 31, 2009, is eligible for the tax credit for processing activities in the resource regions (old system) may, for its taxation year including December 31, 2010, irrevocably elect to remain eligible according to the terms and conditions applicable to the old system.<sup>7</sup>

Accordingly, such an eligible corporation that makes such election may receive the tax credit for processing activities in the resource regions (old system) at the 30% rate, but only until December 31, 2010. Therefore, it will not benefit from the New RR System for processing activities in the resource regions for subsequent calendar years, as the rules of the old system stipulate. In such a case, such eligible corporation can receive the investment tax credit relating to manufacturing and processing equipment only for its eligible investments made as of the taxation year following the one that includes December 31, 2010.

Making this election irrevocably nullifies the corporation's right to benefit from the New RR System for calendar year 2010 and subsequent calendar years.

An eligible corporation that, on the filing deadline applicable to it for its taxation year that includes December 31, 2010, has not elected to remain subject to the Old RR System legally becomes subject to the New RR System.

Where a given corporation, eligible for the Old RR System, is associated, during a taxation year, with one or more other corporations eligible for one of the three refundable tax credits awarded in the resource regions (old system), the election to remain subject to any of these three tax credits (old system) for calendar year 2010 must be made jointly by such corporations. Such election must be filed no later than whichever of the filing deadlines applicable to such corporations occurs first.

Making this election irrevocably nullifies the right of the eligible corporation and of the corporations with which it is associated to benefit from the New RR System and the new systems for the tax credit for Aluminum Valley and the tax credit for Gaspésie and certain maritime regions of Québec for calendar year 2010 and subsequent calendar years.

### **Corporation Electing to Benefit from the Investment Tax Credit for Manufacturing and Processing Equipment following the March 13, 2008 Budget Speech**

A corporation that elected to benefit, in lieu of the Old RR System<sup>8</sup>, from the investment tax credit regarding a taxation year ending after March 13, 2008, may benefit, as of calendar year 2010, from the New RR System and continue to benefit from the investment tax credit for eligible investments made before January 1, 2016.

---

<sup>7</sup> As these terms and conditions stood on December 10, 2009, as well as any change that may be made to them after December 10, 2009.

<sup>8</sup> See the detailed fact sheet relating to the Old RR System.

In that case, the base calendar year of the corporation, for calendar year 2010 and subsequent calendar years, corresponds to the base calendar year of the corporation that applied for the purposes of determining the increase in its payroll when it benefited from the Old RR System for the last time.

For more information on the terms, conditions and consequences of the elections mentioned above, we recommend you consult your tax advisor or contact Revenu Québec directly.

### **Other Terms and Conditions applicable to the New System relating to the Tax Credit for Processing Activities in the Resource Regions**

All the other terms and conditions applicable to the Old RR System and not mentioned in this detailed fact sheet apply to the New RR System.

### **Interaction with Other Tax Credits, Assistance or Benefits**

Pursuant to certain terms and conditions stipulated in the *Taxation Act*, the amount of wages, for the purposes of calculating the tax credit, must be reduced by the amount of any government or non-government assistance and any profit or gain, as well as by the amount of wages for which another refundable tax credit is granted or regarding which a tax credit for on-the-job internships was or will be granted.

These reductions for the base calendar year may not exceed the reductions calculated for the calendar year regarding which the tax credit is claimed.

Furthermore, where an eligible corporation, in a given taxation year, receives, is entitled to receive or may reasonably expect to receive assistance, a benefit or other amount attributable to an expense of the corporation for which a tax credit has been awarded, the corporation must pay a special tax stipulated by the *Taxation Act* in the year. As with any tax stipulated by the Act, it is up to the corporation to assess itself for such tax, if applicable, and the entire process is subject to audit by Revenu Québec.

Lastly, the tax assistance relating to the tax holiday for manufacturing SMEs in remote resource regions and the New RR System from which a corporation may benefit, for a given taxation year beginning after December 31, 2009, may not exceed, in total, the amount obtained by adding a basic amount of \$50,000 (subject to division among associated corporations) and an amount corresponding to 5% of the corporation's gross income attributable to the resource regions for the given taxation year.

For more information on the interactions between the New RR System and the other tax measures stipulated in the *Taxation Act*, such as those relating to limits on tax assistance, we recommend that you consult your tax advisor or Revenu Québec.

### **Cancellation for Major Unforeseen Incidents**

Investissement Québec can, at the request of an eligible corporation, cancel the eligibility certificate issued to it when a major unforeseen incident<sup>9</sup> occurs. However, such cancellation becomes effective only as of the calendar year following the last calendar year for which the tax credit was claimed.

Afterwards, the eligible corporation may apply for a new eligibility certificate for a subsequent calendar year if it satisfies the other eligibility conditions. It must resume carrying on its business before the end of the second calendar year following the one in which it ceased such activities.

In the event that the corporation resumes its activities in the same municipality or in a municipality no more than 40 km away, the base calendar year relating to the second certificate will then correspond

---

<sup>9</sup> For example, a fire that destroyed a large part of the corporation's facilities.

to the calendar year preceding the one during which the corporation again became eligible for the tax credit.

In the event that the corporation resumes its activities in a municipality that is more than 40 km away, the base calendar year relating to the second certificate will then correspond to the base calendar year associated with the certificate that was cancelled.

Lastly, for illustration purposes, the loss of a major customer or other consequence stemming from a normal business risk resulting, for instance, from a difficult economic situation, fluctuations on financial markets or other factors are not considered major unforeseen incidents.

## **Annual Eligibility Procedure**

Eligible corporations must obtain an annual eligibility certificate from Investissement Québec regarding their activities and annual eligibility attestations regarding employees for whom they wish to claim a tax credit. The forms are available on Investissement Québec's website or by contacting the Department of Tax Measures of Investissement Québec.

The annual eligibility certificate confirms the eligible activities carried out by the corporation during the calendar year in question. Investissement Québec will take into account any change that may have occurred during the calendar year in the activities carried out by the corporation since its last annual applications.

The annual attestation confirms that all employees covered by the attestation devoted at least 75% of their time to carrying out, supporting or directly supervising the activities of the recognized business. The corporation must obtain this attestation for the calendar year of the claim, as well as for the base calendar year.

For each taxation year for which the corporation intends to claim the tax credit, it must enclose a copy of its latest financial statements and an organization chart of its employees along with its certificate and attestation applications.

All the other calculation terms and conditions stipulated in the *Taxation Act* are validated by Revenu Québec once the tax return and the prescribed form for claiming the tax credit are filed.

In that regard, for the corporation to ensure that it does not lose its entitlement to the tax credit, annual certificate and attestation applications must be filed with Investissement Québec before the end of the fifteenth (15th) month following the end of the corporation's fiscal year. If the application is filed after that date but before the end of the eighteenth (18th) month following the end of the corporation's fiscal year, Revenu Québec may, at its discretion, agree to extend the deadline for filing the attestation. If the application is filed with Investissement Québec after the end of the eighteenth (18th) month following the end of the corporation's fiscal year, no extension of the deadline will be granted.

In all cases, Investissement Québec considers an application for certificates and annual attestations to be complete if it is signed, if all the sections of the form are duly completed and if it is accompanied by all the documentation required in the form including, if applicable, a power of attorney authorizing a representative to act on behalf of the corporation.

## **On-site Visit**

Investissement Québec reserves the right to visit an eligible corporation's facilities at any time during the eligibility period. Accordingly, the corporation must undertake to give access to Investissement Québec's representatives and provide the information required during the visit.

## **Interim Financing of the Tax Credit**

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

## **Rate Schedule**

Investissement Québec charges fees for the analysis of an eligibility application relating to the tax measures it administers. For more information, please consult the rate schedule available on the website.

*This detailed fact sheet is a summary of the fiscal policy taken from various publications of the Ministère des Finances du Québec and the Taxation Act. Other conditions may apply in certain cases.*

*While it may refer to certain provisions, including those of the Taxation Act in particular, this description is not an interpretation by Investissement Québec of the legislative provisions relating to the tax measure.*

*December 18, 2009*