



GROWING JUST GOT EASIER

Certain conditions regarding this tax measure have been changed following the 2012-2013 Budget Speech of March 20, 2012. Please visit our website regularly, as the updates will be made in the next few weeks.

## MULTIMEDIA TITLES

### Refundable Tax Credit for the Production of Multimedia Titles – General Component

The refundable tax credit for the production of multimedia titles is intended, in particular, to foster development of the video game industry and certain distribution platforms.

#### Corporations Eligible for the Tax Credit

To qualify for this tax credit, a corporation must have an establishment in Québec and operate a multimedia-title production business there. Investissement Québec is responsible for determining whether a corporation is the producer of a title. The corporation must produce a multimedia title for which Investissement Québec has issued an eligibility certificate.

Corporations that do not qualify:

- a corporation tax-exempt for the taxation year in question;
- a Crown corporation or a wholly owned subsidiary of such a corporation;
- a corporation benefiting from the tax credit for corporations specializing in the production of multimedia titles; or

It is not necessary for the corporation to be Québec-controlled.

A new kind of eligible title was added in the *2010–2011 Budget Speech* of March 30, 2010: the eligible related title. Like an eligible multimedia title, an eligible related title may give the right to the tax credit for multimedia titles – general component or specialized corporations component. For more information about eligible related titles, refer to the detailed fact sheet “Production of multimedia titles – Specialized corporations.”

#### Eligible Multimedia Titles

All multimedia titles produced for commercial use, including those commissioned, are eligible. The titles must be produced on electronic media, be controlled by software that allows for interactivity, and include an appreciable quantity of three of the following four types of data: text, sound, fixed images and animated images. It should be noted that a multimedia title will not be deemed to include an appreciable quantity of sound and animated images when it contains video images.

Ineligible multimedia titles:

- titles that are essentially interpersonal communication services (videoconferencing, electronic bulletin boards, chat rooms, etc.) and on-line transactional services (teleshopping, virtual shopping centres, electronic ticketing, on-line payment systems, etc.);
- titles intended to present a for-profit business, to publicize its activities or promote its products and services;
- titles that encourage violence, sexism or discrimination.

### **Corporation Producing Part of an Eligible Multimedia Title**

A corporation (subcontractor) producing part of an eligible multimedia title for the title producer may apply for a tax credit (general or specialized corporations component) for the eligible labour expenditure for such title part provided the title producer is not liable for Québec income tax. Determining whether a title part qualifies as an “eligible multimedia title” is based on an analysis of the multimedia title and not the title part.

When the title producer is entitled to a tax credit (general or specialized corporations component), the eligible labour expenditure for the title part is included in the calculation of the producer’s eligible labour expenditure, unless the subcontractor holds a specialized corporation certificate. If it does, the subcontractor alone may claim the tax credit for the eligible labour expenditure for the title part.

### **Categories of Eligible Multimedia Titles (including Eligible Related Titles) and Tax Assistance**

For titles for which the main production work began after December 19, 2002, the categories of eligible multimedia titles are as follows:

- Category 1: multimedia titles that are produced without receiving an order and that are intended to be marketed;
- Category 2: other multimedia titles.

A title produced to order is a title for which production begins only after the order has been placed with the multimedia producer.

For a title to be intended to be marketed, the following two criteria must be met:

- The title must be available to the general public, i.e., it must not be restricted to a limited clientele; and
- Genuine efforts to market it must be undertaken. For example, merely making a title available on a web site would not constitute evidence of a genuine marketing effort.

The tax assistance applicable to eligible labour expenditures is as follows:

	<b>Category 1</b>	<b>Category 2</b>
Basic credit	30% of the eligible labour expenditure	26.25% of the eligible labour expenditure
Premium for French	7.5% of the eligible labour expenditure	Not applicable
Total	37.5% of the eligible labour expenditure	26.25% of the eligible labour expenditure

For the "Premium for French" to be obtained for an eligible multimedia title, the French-language version of the title must be at least equivalent to any other version when the title's final version is developed.

### **Eligible Production Work**

"Eligible production work" refers to work performed throughout the stages of production of a multimedia title, from the design stage to the development of a final version ready for marketing. Briefly, these stages include activities related to scriptwriting for the title, the development of the title's interactive structure, the purchase and production of the components, and the title's computer development.

System architecture-related activities are also included in the production work eligible for annual eligibility certificate applications filed with Investissement Québec after March 30, 2010.

In general, these activities include the design, installation and maintenance of the network and servers required to produce the multimedia title as well as the management of system security and data access.

However, eligible production work excludes activities related to the mastering of a title, the replication of the medium, the title's promotion and distribution, and activities designed to give the title access to communication networks.

#### **ELIGIBILITY PERIOD FOR ELIGIBLE PRODUCTION WORK**

To support changes to eligible multimedia titles during the marketing phase, "eligible production work" may include activities carried out during the 24-month period following the date on which the final version is completed. This period is 36 months for annual eligibility certificate applications filed with Investissement Québec after March 30, 2010.

The "date on which the final version is completed" is deemed to be the date on which the distribution of a multimedia title begins. For example, in the case of a multimedia title distributed on the Internet, this date is the date on which the title is put on line.

Investissement Québec is responsible for setting the application dates that refer to the degree of progress of the production work, i.e., the date on which work begins and the date the final marketing-ready version is completed.

## **Eligible Labour Expenditures**

Assistance for eligible multimedia titles is granted according to a producer's "qualified labour expenditures" in a given taxation year. These expenditures include the following, less the amount of any government or non-government assistance attributable to the labour expenditure:

- Salaries and wages paid by the producer during the year to his or her employees working at his or her establishment in Québec and who are assigned to "eligible production work", i.e., who work directly on the production of the eligible multimedia title.
- The portion of the consideration that is paid to a subcontractor not dealing at arm's length with the multimedia producer and that can be reasonably attributed to salaries paid to the employees of a subcontracting firm in Québec for "eligible production work".
- 50% of the consideration attributable to such work paid to a subcontractor dealing at arm's length with the multimedia producer for "eligible production work" performed for the latter at a Québec establishment of this subcontractor.

## **Titles Produced in Series**

Certain multimedia titles cover a specific topic and are produced periodically, for example a title that provides an annual review of the computers available on the North American market. In this case, the tax assistance will be granted by taking into account the development of the first final version of the title, regardless of subsequent changes in content or technical enhancements to subsequent versions of the title.

## **Definition of Terms**

### **INTERACTIVITY**

The term "interactivity" is used to describe communication between a human being and a computer. This being said, interactivity can range from "technical" interaction on a primary level (menus, cursors, etc.) to verbal exchanges with a computer.

An interactive multimedia title must enable the user to become a participant, not simply a reader or spectator. The whole multimedia title must be interactive, not only part of it.

Three characteristics are used to determine whether a multimedia title is interactive: feedback, control, and adaptation.

#### **1. Feedback**

Feedback is a response given by a program to the user. For example, interactive educational software could comment on the results a user obtains on a test in the program; it could give the user the right answer, point out weaknesses, or suggest that the user review a particular chapter.

#### **2. Control**

The user has a degree of control over a multimedia title when he or she is able to influence the way the program proceeds. For example, the user can make choices, implement a strategy, move objects, use logical reasoning, reconstitute a whole, or modify or create an image.

### 3. Adaptation

A program adapts to the user's needs when it offers the user a choice of action in a number of specified situations. A program can therefore include several scenarios that take into account the user's skill level. It can also include decision trees or databases enabling the user to search for and process information.

Note: These characteristics are not absolutely essential conditions for interactivity. However, they do serve as an important guide in the evaluation of this criterion.

Examples of multimedia productions that generally include one or more of these characteristics are as follows:

- video games;
- educational software;
- edutainment titles;
- simulators (for example, for driving a car);
- multimedia productions containing search engines or data bases.

More specifically, a multimedia title that allows users strictly to choose content using buttons, panel displays, menus, or cursors, but does not allow them to interact with the content (e.g., a slide show, video presentation or PowerPoint presentation), does not qualify for assistance under this tax measure. Similarly, hyperlinks that give users access to web sites, whether interactive or not, are insufficient for a title to be considered interactive.

#### APPRECIABLE QUANTITY

The quantity of an element is considered to be appreciable when the absence of such element would compromise the proper functioning of a title (or part of it) or substantially affect the relevance of the title.

#### AVAILABILITY IN FRENCH

A title's availability in a French version is evaluated using the following criteria:

- The French version of the title must be at least equivalent to the versions produced in another language, and;
- The title designer must be able to demonstrate that the consumer can or will be able to obtain the French version of the title through the usual marketing channels from the first day it is marketed. This version must therefore be advertised or distributed.

### **Interaction with Other Tax Credits, Assistance, Benefits, etc.**

The *Taxation Act* stipulates that the labour expenditure, for the purposes of calculating the tax credit, must be reduced by the amount of any government or non-government assistance attributable thereto.

As of April 22, 2005, reimbursement of assistance, a benefit or another amount that previously served to reduce the labour expenditure for the purposes of calculating the tax credit awarded to a corporation will be added to the labour expenditure for application of the tax credit to which the taxpayer will be entitled.

Furthermore, as of April 22, 2005, a special income tax will be payable during the year in which a taxpayer receives, is entitled to receive or may reasonably expect to receive assistance, a benefit or another amount attributable to an expenditure by the taxpayer for which a tax credit has been awarded.

## Eligibility Application and Claim for Tax Credit

A corporation must submit an application to Investissement Québec using the form provided for that purpose and enclose the required documentation. This form is available on Investissement Québec's web site or may be requested from its Department of Fiscal Measures.

The issuance of certificates does not guarantee that a corporation will obtain the tax credit. The corporation must also satisfy eligibility criteria checked by Revenu Québec.

The claim must be made with the corporation's tax return within 18 months of the end of the taxation year; it must be made using the form prescribed by Revenu Québec.

The tax credit for multimedia titles is a refundable tax credit. When the tax credit exceeds the tax payable, a corporation can obtain a refund of the excess.

## Certification Process

1. To be able to claim the refundable tax credit for the production of multimedia titles, the title producer must first hold a valid *initial eligibility certificate* issued by Investissement Québec confirming that the title produced or to be produced complies with the rules in effect.

The *initial eligibility certificate* will be valid for the entire period during which the corporation is entitled to claim a refundable tax credit for eligible production work. It may be obtained while the production work on the title is under way or once it has been completed. The initial eligibility certificate does not need to be renewed.

2. The corporation must subsequently obtain an *annual eligibility certificate*<sup>1</sup> for the production work relating to the eligible multimedia title. This certificate must be obtained from Investissement Québec **for each fiscal year** for which the corporation is entitled to claim the tax credit.

Moreover, the corporation must provide Investissement Québec with two copies of the title within two months of its distribution date. If after two months the corporation has not provided the two copies or has failed to justify, to Investissement Québec's satisfaction, any delay in doing so, the revocation process may be initiated.

Lastly, to ensure that you obtain your tax credit, you must submit your annual eligibility certificate application to Investissement Québec before the end of the fifteenth (15th) month following the corporation's fiscal year end. If you submit your annual eligibility certificate application after this date but before the end of the eighteenth (18th) month following the corporation's fiscal year end, Revenu Québec may extend the deadline for filing the certificate, but only on an exceptional basis. If an application is submitted to Investissement Québec after the eighteenth (18th) month following the corporation's fiscal year end, no extension will be granted. To be considered receivable by Investissement Québec, the annual eligibility certificate application must be duly completed, signed, and accompanied by all documents required on the application form, including a power of attorney, if applicable.

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<sup>1</sup> Annual eligibility certificate applications are available on Investissement Québec's web site.

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

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

## **Special Tax**

Under certain circumstances, for example if a labour expenditure for which a tax credit is awarded is refunded to a corporation, any tax credit overpayment may be recovered by means of a special tax.

In addition, this tax credit may be recovered by Revenu Québec at any time by means of a special tax if, for example, Investissement Québec revokes an initial eligibility certificate.

## **Rate Schedule**

Since September 1, 2004, Investissement Québec has charged fees for the analysis of any application for eligibility relating to the tax measures it administers. For more information on this topic, please consult the [rate schedule](#) available on this web site.

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

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

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