



**FAVOURABLE
MEASURES
TO FOSTER
INVESTMENT**

Taxation in Québec 2010



GROWING JUST GOT EASIER

Written by Raymond Chabot Grant Thornton
in collaboration with the Department of Strategic
Information of Investissement Québec



Cette brochure est aussi disponible en français.

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For further information, please contact:

Investissement Québec

413, rue Saint-Jacques
Bureau 500
Montréal (Québec)
H2Y 1N9 Canada
Telephone: 1 866 870-0437
Fax: 514 873-5786
infoiq@invest-quebec.com
www.investquebec.com

Raymond Chabot Grant Thornton

To see the list of our offices,
please refer to the Network section
of our website at www.rcgt.com

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INTRODUCTION

Corporate tax serves as an important stimulus for the economy. For this reason, Québec offers entrepreneurs a competitive tax system designed to foster business growth.

Intended especially for foreign companies considering investing in Québec, *Taxation in Québec: Favourable Measures to Foster Investment* provides an overview of the principal tax measures that apply to companies operating in Québec.

In addition to very attractive tax measures, Québec has given Investissement Québec specific tools that enable it to act as a financial partner with businesses. Although this brochure focuses on tax issues, Québec provides businesses with a range of financial solutions that complement those offered by financial institutions. These solutions may include conventional loans, loan guarantees, equity loans, non-refundable contributions or equity interests. Further information about these financial products can be obtained from Investissement Québec at 1 866 870-0437 or by logging on to www.investquebec.com.

The information in this brochure was up to date as of May 1, 2010 and does not reflect any modifications that might have been announced subsequent to that date. Monetary amounts are expressed in Canadian dollars.

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1. TAX SYSTEM

A foreign corporation carrying on business in Québec is subject to Canadian and Québec income taxes on business income earned in Québec. Like the federal government, the Québec government administers and collects its own personal and corporate income taxes. In general, taxable income is computed the same way under both systems; however, Québec uses its tax system to provide businesses with incentives to stimulate the Québec economy. As a result, there are numerous tax measures that can be used as a source of financing.

1.1 CARRYING ON BUSINESS

Foreign investors wanting to carry on business in Québec can incorporate their business or set up a branch. A corporation is a separate legal entity that can be incorporated under the *Canada Business Corporations Act* or the *Companies Act* (Québec). A branch is a commercial establishment that is part of a corporation.

While, as a general rule, non-residents of Canada carry on business here through incorporated subsidiaries of foreign corporations, a large number do in fact use branches. The type of entity used to carry on business in Québec depends on the related legal, tax, economic and commercial consequences.¹

This brochure focuses primarily on tax measures applying to corporations carrying on business in Canada.

1.2 NON-RESIDENT INCOME TAX

1.2.1 Carrying on Business through a Corporation

In Canada, a corporation is taxed on its income from all sources independently from its shareholders. Federal non-resident tax must be withheld on any amount paid by the corporation to non-residents for dividends, interest, royalties or management fees.

The general withholding rate is 25%. However, Canada has signed tax treaties with a number of countries. These treaties reduce the rate to between 0% and 15%, depending on the type of payment and the country. The Canadian government also reduces the tax withheld on dividends paid to foreign corporations to 5% when the treaty includes a reciprocal measure for the other country. For example, the Canada-U.S. Tax Convention establishes the rate at 5% if the recipient of the dividend owns at least 10% of the corporation's voting rights.

1.2.2 Carrying on Business through a Branch

A foreign corporation that carries on business in Canada through a branch is subject to corporate income tax in Canada on its taxable income attributable to that establishment. In addition to corporate income tax, a branch tax is payable, equal to 25% of the after-tax earnings not reinvested in the Canadian business. Branch tax is comparable to the dividend withholding tax that would be paid if a Canadian corporation repatriated profits as dividends paid to its non-resident shareholder. The rate is generally lower when there is a tax treaty between Canada and the corporation's country of residence. For example, the Canada-U.S. Tax Convention reduces the rate to 5% and also exempts the first \$500,000 of income earned in Canada.

¹ Particular attention should be paid to how Québec operations are financed so as not to run afoul of thin capitalization rules, which limit the interest deduction on a corporation's debt owing to certain non-resident persons when the debt is more than two times the amount of the corporation's equity.

1.2.3 Withholding and Branch Tax Rates Based on Tax Treaties

The following table indicates the rates for the non-resident withholding tax on different types of payments and the branch tax for countries with which Canada has signed a tax treaty.

NON-RESIDENT WITHHOLDING TAX RATE (2010)					
	Dividend	Interest	Royalty	Management Fee	Branch Tax
United States	5% or 15% ¹	0%	0% or 10% ²	0% ³	5%
France	5% or 15% ¹	10%	0% or 10% ²	0% ³	5%
England	5% or 15% ¹	10%	0% or 10% ²	0% ³	5%
Ireland	5% or 15% ¹	10%	10%	0% ³	5%
Germany	5% or 15% ¹	10%	10%	0% ³	5%

¹ Varies according to percentage of share ownership and type of entity that owns the shares.

² Varies according to nature of royalty payments.

³ No withholding if services are rendered in the country of the recipient of the amounts paid.

1.3 INVESTMENT CANADA ACT

Pursuant to the *Investment Canada Act*, the creation and acquisition of businesses by foreign investors normally requires the filing of a notification or a pre-review by the federal authorities.

As a general rule, a notification has to be filed each time an investor undertakes a new commercial activity in Canada and each time an investor acquires control of a Canadian business, unless the investment is a reviewable transaction. There are a number of variables that determine whether an investment is reviewable, including, in particular, the value of the assets of the Canadian business. For additional information, contact the Investment Review Division.²

² Investment Review Division in Ottawa, the number is 613 954-1887. Complete information can be found on the Investment Canada Act Web site at <http://investcan.ic.gc.ca>.

2. CORPORATE TAXATION

A corporation that carries on business in Québec is subject to a combined general tax rate of 29.9%: 11.9% provincial and 18% federal (16.5% as of January 1, 2011). However, a large number of corporations are entitled to various tax incentives, such as tax credits and tax holidays, which are described in Section 3.

2.1 TAXABLE INCOME

The starting point for determining a corporation's taxable income is the net income reported in its financial statements. Certain items then have to be added or deducted in order to comply with the tax laws. There are two types of differences between accounting income and taxable income. The first one includes certain accounting income or loss items not recognized for tax purposes in Canada, e.g. the non-taxable portion of capital gains. The second one includes timing differences with respect to the recognition of revenues and expenses for accounting and tax purposes, e.g. depreciation.

2.1.1 Capital Gains

In Canada, only 50% of the profit (capital gain) realized on the disposition of a property is included in a corporation's taxable income. Similarly, only 50% of capital losses are deductible. Furthermore, capital losses can only be deducted against capital gains. Capital losses that have not been deducted can be carried forward indefinitely to subsequent years or carried back to the three preceding years and applied against capital gains of those years.

2.1.2 Depreciation

The tax deduction for depreciation is optional and is usually more generous than what is allowed by accounting principles. In most cases, depreciation rates are the same for federal and provincial purposes. Both governments agreed to regularly review depreciation rates on the basis that improving the depreciation rate structure will increase business productivity.

In Canada, depreciable property is grouped into classes for which there are specific depreciation rates. Depreciation is calculated on the residual balance for the class, which means the amount that can be claimed is higher in the initial years.

The following table shows the most frequently used depreciation rates for federal and Québec purposes for 2010.

Type of property	Federal and Québec ¹ (% of residual balance)
Buildings used for manufacturing and processing ²	10
Other non-residential buildings ²	6
Automobiles, pick-up trucks, trucks, tractors, trailers	30
Certain trucks used to carry merchandise	40 ³
Computers and related equipment ⁴	100
Infrastructure equipment for data systems ⁵	30
Software	100
Manufacturing machinery and equipment ⁶	50 Straight-line
Furniture and fixtures	20
Patent (limited or unlimited life)	25
License or permit (limited life)	Straight-line ⁷
License or permit (unlimited life)	7 ⁸

¹ For federal and Québec purposes, assets are generally grouped by class and depreciation is calculated on the balance for the class. An asset cannot be depreciated for tax purposes before the earlier of: the date it is used or 24 months after it has been acquired. Moreover, acquisitions during the year are generally only eligible for one-half of the available deduction.

² Measure applicable to new equipment acquired on or after March 19, 2007 (4% for property not eligible for the enhanced rate).

³ In Québec, 60% for new vehicles acquired after March 30, 2010. Furthermore, subject to certain conditions, for new vehicles fuelled by liquefied natural gas (acquired after March 30, 2010 and before January 1, 2016) an additional deduction of 85% of the amount deducted on account of the 60% capital cost allowance can be claimed

⁴ 100% amortization rate in the first year for equipment acquired on or after January 28, 2009 and before February 2011, if the equipment is new (55% of residual balance before and after these dates). Related equipment includes system software, i.e. the general systems that make it possible to run applications and manage and coordinate the various computer operations, in particular the inputting and extraction exercises between the keyboard, the CRT screen, the printer, disk drives and peripheral equipment.

⁵ Data system infrastructure supports advanced telecommunications applications, such as email, Web research and hosting, instant message handling and audio and video functions based on the Internet protocol.

⁶ Measure applicable to equipment acquired on or after March 19, 2007 and before 2014 (30% of residual balance before and after these dates).

⁷ Depreciable over the useful life of the license or permit.

⁸ 75% of cost is depreciable.

2.2 TAX RATES

2.2.1 Canada

A corporation that carries on business in Canada is subject to federal and provincial corporate income tax. Consequently, the corporation has to allocate its income among the provinces where it has an establishment. For federal and Québec purposes, the tax rate on a corporation's business varies depending on whether the corporation is eligible for the small business deduction (SBD). The basic tax rate is 18% (16.5% in 2010) for federal purposes. The rate is 11% on the first \$500,000 of active business income eligible for the SBD. In Québec, the basic rate is 11.9%. The rate is 8% on the first \$500,000. To qualify for the SBD, a corporation has to be a Canadian-controlled private corporation, i.e. a private corporation that is resident in Canada and of which at least 50% of the voting shares are owned by Canadian residents. It must also have a taxable capital (including the taxable capital of its associated corporations) less than \$15M. The tax rate for a corporation that carries on business in Québec is therefore 29.9%. The rate is 19% on its active business income eligible for the SBD.

In certain provinces, businesses that carry on manufacturing and processing activities, including manufacturing businesses, are subject to a lower tax rate on their manufacturing and processing profits (MPP).

As shown in the following tables, Québec's corporate tax rate makes its tax system generally very competitive. The table shows the basic tax rates on corporate business income.

BASIC TAX RATE ON BUSINESS INCOME (2010 Basic Tax Rate)		
	%	Combined %
Federal	18.0 ¹	
Provincial:		
• Alberta	10.0	28.0
• British Columbia	10.5 ²	28.5
• Manitoba	12.0 ³	30.0
• New Brunswick	11.0 ⁴	29.0
• Nova Scotia	16.0	34.0
• Ontario	12.0 ⁵	30.0
• Québec	11.9	29.9

¹ The general federal tax rate will be 16.5% in 2011 and 15% as of 2012.

² 10% as of January 1, 2011.

³ Rate reduced to 10% and 8% respectively as of July 1, 2011 and 2012.

⁴ 12% as of July 1, 2010 (14% before that date). Rate reduced to 11.5%, 11% and 10% respectively as of July 1, 2011, 2012 and 2013. The rate for manufacturing businesses is of 10% as of July 1, 2010 (12% before that date).

2.2.2 United States

In the United States, the federal government, most of the States and even certain cities levy corporate income tax. The first table shows the basic federal tax rate applicable to non-manufacturing businesses based on their taxable income. The second table shows the effective rates in a few U.S. states and cities for manufacturing businesses.

U.S. BASIC FEDERAL CORPORATE TAX RATE (2010)	
Taxable income (US\$)	Basic federal tax
\$50,000 or less	15% of taxable income
\$50,000 – \$75,000	\$7,500 + 25% on next \$25,000
\$75,000 – \$100,000	\$13,750 + 34% on next \$25,000
\$100,000 – \$335,000	\$22,250 + 39% on next \$235,000
\$335,000 – \$10,000,000	\$113,900 + 34% on next \$9,665,000
\$10,000,000 – \$15,000,000	\$3,400,000 + 35% on next \$5,000,000
\$15,000,000 – \$18,333,333	\$5,150,000 + 38% on next \$3,333,333
\$18,333,333 or more	35% of taxable income

EFFECTIVE U.S. CORPORATE TAX RATES¹ (Manufacturing Income) (2010)					
	Federal²	State	Selected city (certain States)	Total	Outside reference city
	%	%	%	%	%
Alabama	29.78	5.92	–	35.70	–
California	29.03	8.84	–	37.87	–
North Carolina	29.65	6.90	–	36.55	–
South Carolina	30.26	5.00	–	35.26	–
Delaware	29.08	7.92	–	37.00	–
Georgia	29.75	6.00	–	35.75	–
Illinois	29.52	6.64	–	36.16	–
Massachusetts	28.79	8.75 ³	–	37.54	–
Michigan	29.60	6.05 ⁴	1.00 ⁵	36.65	35.97
New Jersey	28.70	9.00 ⁶	–	37.70	–
New York	26.39	7.10	10.05 ⁷	43.54	36.69
Ohio	31.21	0 ⁸	2.00 ⁹	33.21	31.85
Pennsylvania	26.61	9.09	6.45 ¹⁰	42.15	38.66
Tennessee	29.58	6.50	–	36.08	–
Texas	31.50	1.00 ¹¹	–	32.50	–
Virginia	29.94	5.46	–	35.40	–
Washington	31.85	–	–	31.85	–

¹ Based on the basic corporate federal tax rate of 31.85%. The rates shown do not include business or other capital taxes.

² State and city taxes are generally deductible from U.S. federal income tax.

³ The tax rate on net income is 8.75% for 2010 and will be reduced to 8.25% and 8% for 2011 and 2012 respectively. Moreover, a capital tax, calculated at the rate of 0.26%, must be added to the 8.75% tax.

⁴ The Michigan Business Tax rate is 4.95%. For 2010, a surtax of 21.99% is added on this rate. In addition, a modified gross receipt tax at a rate of 0.8% is imposed on entities that have nexus in the State.

⁵ Numerous cities in the state of Michigan impose a 1% income tax. However, in the cities of Saginaw, Grand Rapids and Highland Park the rates are 1.5%, 1.3% and 2%, respectively.

⁶ A 4% surtax applies on the state tax (9%) for the period ending on or after July 1, 2006 but before July 1, 2010. The rate indicated above applies to taxable income in excess of \$100,000 after July 1, 2010.

⁷ New York City. A 17% surtax applies to the state tax (7.1%) for the metropolitan New York area in addition to the 8.85% city rate. The three rates may not apply to all corporations.

⁸ State corporate income tax is eliminated in 2010 (2009 financial period) for most corporations. On the other hand, a new tax (Commercial Activity Tax), applicable on gross receipts, was gradually introduced during the last few years. Since January 1, 2010, the rate is 0.26% on gross income.

⁹ Numerous cities in Ohio have a corporate income tax. The city rates vary between 0.5% and 2.85%. The rate shown above is for Cleveland. The tax rate for Dayton is 2.25%.

¹⁰ Philadelphia. There is a 0.1415% tax on gross revenue in addition to income tax.

¹¹ The State imposes a Franchise Margin Tax at a rate of 1%. The "Margin" equals the lesser of the following three margins: 1) total revenues minus cost of good sold; 2) total revenues less remuneration; and 3) 70% of total revenues. From January 1, 2010 to December 31, 2011, a state tax exemption applies to entities having an income of less than \$1,000,000. The revenue threshold will decrease to \$600,000 after January 1, 2012.

2.3 OPERATING LOSSES

In computing its income for a year, a corporation can deduct operating losses incurred in the year up to the amount of its taxable income. Any unused loss can be carried back three years or forward 20 years.

Unlike other systems, including that of the U.S., Canada's tax system does not allow corporate groups to file consolidated tax returns. However, with proper planning, it may be possible to use operating losses within a corporate group. Furthermore, the federal government announced its intention to evaluate the possibility of introducing a formal system of loss transfers or consolidated reporting for corporate groups.

2.4 PAYROLL TAXES AND EMPLOYER OBLIGATIONS

As an employer, a corporation carrying on business in Québec has to remit payroll taxes and assume certain other obligations in respect of its employees pursuant to the *Act Respecting Labour Standards*.

2.4.1 Employer Payroll Taxes and Obligations

Québec employers are subject to the following payroll taxes and obligations in 2010:

PAYROLL TAXES	
Québec Pension Plan	4.95% of earnings subject to contribution less a \$3,500 basic exemption (maximum earnings subject to contribution are \$47,200 per employee)
Health Services Fund	4.26% of total payroll ¹
Occupational Health and Safety	The average contribution rate varies according to the type of business (maximum insurable is \$62,500 per employee)
Labour Standards Commission	0.08% of payroll (maximum insurable is \$62,500 per employee)
Employment insurance	1.90% of insurable salaries (maximum insurable is \$43,200 per employee)
Québec Parental Insurance Plan	0.708% of insurable salary (maximum insurable is \$62,500 per employee)
Training	Employers are required to spend 1% of their Québec payroll on employee training ²
OBLIGATIONS UNDER THE ACT RESPECTING LABOUR STANDARDS	
Statutory holidays	8 days
Annual vacation	2 weeks after 1 year, 3 weeks after 5 years (i.e. 4% of annual income after 1 year and 6% of annual income after 5 years)
Minimum wage	\$9.50/hour (tip workers: \$8.25/hour) ³
Overtime	1.5 times the hourly rate after 40 hours/week

¹ Contribution rate for an employer whose total payroll is greater than \$5 million is 4.26%. If total payroll is equal to or less than \$1 million, the rate is 2.7%. When it is between \$1 million and \$5 million, the rate varies between 2.7% and 4.26%. The total payroll used to determine an employer's contribution to the HSF is equal to the total wages paid by the employer and any associated employer worldwide.

² In Québec, if an employer fails to spend 1% of its total payroll on training, it has to pay a contribution equal to the difference between 1% of its total payroll and the amount spent on training to the Workforce Skills Development and Recognition Fund. Employers whose total payroll in Québec is less than \$1 million are not subject to the *Act to Promote Workforce Skills, Development and Recognition*. Lastly, employers who have a certificate attesting to the quality of their training initiatives (certificat de qualité des initiatives de formation) are not required to report their training initiatives annually to Revenu Québec.

³ Rates in force since May 1, 2010.

2.4.2 Capital Tax

A corporation carrying on business in Québec is subject to capital tax equal to 0.12% (tax completely eliminated as of 2011) of taxable capital.³ This tax is deductible in computing taxable income. The Québec government exempts the first \$1,000,000 of taxable capital⁴ of small businesses.

In order to further reduce the tax burden on corporations in the manufacturing sector, the capital tax is eliminated since March 14, 2008 for a corporation carrying on a manufacturing business in Québec whose proportion of activities attributable to manufacturing and processing activities is 50% or more. Therefore, since March 14, 2008, this type of corporation may benefit from a deduction corresponding to the paid-up capital amount. For a corporation whose manufacturing and processing activities are between 20% and 50%, this deduction is reduced linearly. For example, a corporation whose manufacturing and processing activities total 35% could benefit from a deduction equal to 50% of its paid-up capital.

³ Taxable capital corresponds to the corporation's net assets plus long-term debt and advances to the corporation, less investments in other corporations.

⁴ In general, a corporation completely loses the benefit of the exemption when its taxable capital and the taxable capital of all corporations in the group for the previous taxation year exceed \$4,000,000. If taxable capital is between \$1,000,000 and \$4,000,000, the exemption is reduced on a declining basis.

3. TAXATION AS A SOURCE OF FINANCING

In this era of globalization, corporations must be more creative than ever and seize every opportunity that comes their way. Management therefore not only has to identify business opportunities but also available sources of financing. The challenge is to optimize available tax measures while taking into account the corporation's tax, financial and commercial objectives.

The text below describes various corporate tax measures in two main areas, i.e. investment and job creation. They have been grouped under four categories:

- Scientific research and experimental development;
- Biotechnology development;
- Manufacturing sector; and
- Other tax measures.

3.1 ELIGIBILITY

As a general rule, corporations carrying on business in Québec or elsewhere in Canada and subsidiaries and branches of foreign corporations are eligible for various tax measures described herein. However, certain tax measures are only available to private corporations or Canadian-controlled private corporations. A private corporation is a corporation that is resident in Canada and that is not a public corporation or a corporation controlled by one or more public corporations. A corporation is Canadian-controlled if Canadian residents own at least 50% of its voting shares. Thus, a non-resident corporation could incorporate a new corporation in collaboration with a Canadian corporation and obtain the tax benefits available to Canadian-controlled corporations.

Québec tax credits cannot be accumulated in respect of an activity. In addition, expenditures must be reduced by any government or non-government assistance received. The assistance given to an enterprise often depends on its size, taking into account all of the corporations in the same group.

To benefit from the different tax measures, a corporation generally has to file a form with its income tax return. Furthermore, any claim, whether in the form of a tax credit or a tax holiday, has to be certified by the tax authorities. In certain cases, corporations have to request visas, certificates or attestations of eligibility from the following government organizations or departments:

Organizations and Departments	Tax Measures	For Additional Information
Investissement Québec	<ul style="list-style-type: none"> • Biotechnology development • Tax holiday for manufacturing SMBs in remote resource regions • Development of E-Business • Multimedia productions • Gaspésie and certain Maritime regions of Québec • Vallée de l'Aluminium 	1 866 870-0437 http://www.investquebec.com
Ministère du Développement économique, de l'Innovation et de l'Exportation	<ul style="list-style-type: none"> • Scientific research and experimental development¹ • Design • Commercialization of intellectual property 	514 499-2550 http://www.mdeie.gouv.qc.ca
Ministère des Finances du Québec	<ul style="list-style-type: none"> • International Financial Centre • Derivative Financial Instruments 	418 528-9323 http://www.finances.gouv.qc.ca
Société de développement des entreprises culturelles	<ul style="list-style-type: none"> • Cultural industry 	514 841-2200 http://www.sodec.gouv.qc.ca

¹ The Minister issues eligibility visas for private partnership pre-competitive research projects as well as eligibility certificates for foreign researchers and specialists. The credit for expenditures incurred under a research contract with a research centre or a university requires an advance ruling from the Québec Minister of Revenue.

3.2 SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT

In an economy based on know-how and competitiveness, investment in scientific research and experimental development (R&D) is essential. There are considerable benefits to performing R&D in Québec because of the tax measures offered by the governments of Québec and Canada. The combined measures allow businesses to cut their R&D costs by nearly 50%, or more.

It is therefore not surprising that Canada, and in particular Québec, is recognized internationally as being one of the best locations for doing R&D.

In Québec, there are a number of credits for stimulating R&D:

- R&D salary: this is the main credit to encourage expenditures on salaries or subcontractor fees.
- University R&D: this credit is granted for research contracts signed with universities and eligible research centres.
- R&D consortium: this credit covers contributions paid to a research consortium in order to encourage businesses in different industries to work together to do research.
- R&D private partnership: this credit is for groups of private businesses doing pre-competitive research.

3.2.1 What is R&D?

A corporation is doing R&D when it does pure or applied research or experimental development and support work that satisfy the following three criteria:

- **Scientific or technological advancement**

The R&D must provide information that advances the understanding of the scientific or technological relationships.

- **Scientific or technological uncertainty**

There must be uncertainty as to the methodology employed to resolve a problem or achieve objectives or results. Technological uncertainty therefore imposes a need for experimentation or analysis.

- **Scientific and technical content**

The objectives of an R&D project must be formulated during the initial stages of the project. Moreover, the method of experimentation or analysis to be followed to dissipate the scientific or technological uncertainties must be clearly stated. The results of the R&D must be well documented.

R&D Activities

R&D often includes the following activities:

- Developing a prototype or modifying production equipment to improve its performance, reliability or precision;
- Using a computer to automate certain decision-making operations;
- Making modifications to a manufacturing process that go beyond current practice in the corporation's field of activity;
- Adapting a technology used in another field or designing one for a different application.

Non-R&D Activities

The R&D tax measures are not available to finance the following activities:

- Market research or sales promotion;
- Quality control or routine testing of materials, devices, products or processes;
- Research in social or human sciences;
- Prospecting, exploring or drilling for minerals, oil or natural gas and the production thereof;
- Commercial production of a material, device or new or improved product and the commercial use of a new or improved procedure;
- Style changes;
- Routine data collection.

3.2.2 Tax Measures

For tax purposes, a corporation that does R&D can deduct all its current expenditures and certain capital expenditures. It can also deduct amounts paid to subcontractors relating to R&D activities performed on its behalf. It can also elect to defer the deduction for the expenditure indefinitely.

There are also generous tax credits that vary according to the corporation's status, size and taxable income. All the corporations in a group are taken into account in determining size and taxable income.

A business doing R&D will also find it easier to attract foreign researchers and specialists to Québec because of the tax holiday to which they are entitled.

– Québec Tax Credits

The following expenditures are eligible for the Québec R&D tax credits:

- Salaries of employees who worked directly on the project;
- One-half of the fees paid to a subcontractor who performed R&D on behalf of the corporation in Québec;
- 80% of the total eligible R&D expenditures incurred in connection with a research contract with a university or eligible research centre⁵;
- Contributions to a research consortium;
- Expenditures made in connection with a private partnership pre-competitive research project.

The basic Québec tax credit is 17.5% of R&D expenditures.⁶ This rate is increased to 35% for contracts with a research centre, contributions paid to a research consortium and expenditures incurred in connection with a private partnership pre-competitive research project, regardless of the size of the corporation. The tax credit is always refundable, i.e. a corporation can receive its tax credit even if it did not pay any income tax.

– Federal Tax Credits

The following expenditures are eligible for the federal R&D tax credits provided the activities are carried on in Canada⁷:

Current Expenditures:

- Salaries of employees who worked directly on the project;
- Fees paid to a subcontractor who performed R&D for the corporation;
- Payments to a certified association, university, college, research institute or other certified body⁸;
- Cost of materials used in connection with the project;
- Leasing cost of equipment used during the execution of the project;
- Overhead expenses directly related to the research.⁹

Capital Expenditures:

- Capital cost of property, such as equipment, provided 90% of the property is used in connection with the R&D project.

The basic tax credit is 20% of the R&D expenditures and is not refundable. The unused balance can be carried back three years and forward 20 years.

⁵ See Appendix 4.

⁶ May be as much as 37.5% of the first \$3 million of eligible expenditures for Canadian-controlled corporations (private or public) if the group's consolidated assets are less than \$50 million.

⁷ As a general rule, R&D expenditures must be incurred in Canada in order to be eligible for a federal tax credit. However, since February 26, 2008, certain salaries paid to Canadian employees carrying out R&D research abroad are eligible for the R&D credit. Eligible salaries are limited to 10% of labour expenditures incurred in Canada for R&D work.

⁸ Certified Québec entities that have agreed to be publicly identified are:

- Natural Gas Technologies Centre Inc.;
- Research Institute of McGill University – Montréal Children's Hospital;
- Institut de recherche et de développement en agroenvironnement.

⁹ To compute overhead, the corporation may use expenditures actually incurred, or the proxy method pursuant to which 65% of the salaries of employees who worked directly on the project is used.

– **Québec Tax Credit for SMBs**

The tax credit for SMBs is 37.5% on the first \$3,000,000 of eligible expenditures per year. An SMB is a Canadian-controlled private corporation whose assets, combined with those of all the corporations in the group, are less than \$50,000,000 as presented in their financial statements. If the assets exceed \$50,000,000, but are less than \$75,000,000, the rate is gradually reduced.

TAX CREDIT ON R&D EXPENDITURES FOR AN SMB		
Assets of Corporate Group (in millions of dollars)	Expenditures up to \$3,000,000 (in %)	Expenditures in excess of \$3,000,000 (in %)
Less than 50.0	37.5	17.5
50.0	37.5	17.5
55.0	33.5	17.5
60.0	29.5	17.5
62.5	27.5	17.5
65.0	25.5	17.5
70.0	21.5	17.5
75.0 or more	17.5	17.5

– **Federal Tax Credit for SMBs**

The tax credit for SMBs is increased to 35% on the first \$3,000,000 of eligible expenditures per year. An SMB is a Canadian-controlled private corporation whose taxable income and taxable capital as well as the taxable income and taxable capital of all the corporations in the group for the previous taxation year do not exceed \$500,000 and \$10,000,000, respectively. If taxable income is greater than \$500,000, but not more than \$800,000, or if taxable capital used in Canada is greater than \$10,000,000, but not more than \$50,000,000, the \$3,000,000 limit of expenditures eligible for the 35% credit is gradually reduced.

TAX CREDIT ON R&D EXPENDITURES FOR AN SMB			
		Expenditures up to Limit	Expenditures in excess of Limit
SMB	· Current expenditures	35%	20%
	· Capital expenditures	35%	20%

PERCENTAGE OF CREDIT REFUNDABLE FOR AN SMB			
		Expenditures up to Limit	Expenditures in excess of Limit
SMB	· Current expenditures	100%	40% ¹
	· Capital expenditures	40%	40% ¹

¹ If the taxable income of a corporate group for the preceding year is more than \$500,000, the credit refund is nil.

Examples are shown in Appendices 1 to 3. The results will be the same regardless of the industry. Only the nature of the expenditures will vary if it is or is not a manufacturing business.

3.2.3 Tax Holiday for Foreign Researchers and Specialists

Foreign individuals who have expertise in certain specialized areas of activity and who settle in Québec to work are entitled to a tax holiday. The tax holiday is in the form of a tax exemption for a maximum of five

consecutive years on a portion of the salary received by these individuals. Therefore, in computing their income, such individuals may deduct 100% of their salary for the first and second years, 75% for the third year, 50% for the fourth year and 25% for the fifth year.

The following researchers and specialists, who are not resident in Canada immediately before their employment contract is signed, are entitled to the tax holiday:

- A researcher specialized in pure or applied sciences who works for a person carrying on a business in Canada and who performs R&D in Québec;
- A specialist either in the field of management or financing of innovation activities or in the marketing abroad or transfer of the latest technology, who is working for a person carrying on a business in Canada and performing R&D in Québec.

3.3 BIOTECHNOLOGY DEVELOPMENT

The creation of the Biotechnology Development Centres (BDC) is intended to bring businesses together in the same location or a building that is suited to their needs. The mission of BDCs is to foster the establishment and growth of businesses engaged in operations involving biotechnology innovation and to promote the creation of scientific centres that help maximize synergy and collaborative efforts.

Businesses that perform biotechnology innovation activities in a BDC are entitled to a 30% tax credit on the following expenditures:

- Employee salaries (maximum of \$37,500 per employee) for a maximum period of 10 years, or until December 31, 2013;
- Purchasing costs incurred for specialized equipment acquired in the first three years of eligibility for the tax measure and leasing costs incurred for equipment leased in the first five years of eligibility;
- Leasing costs for specialized facilities incurred in the first five years of eligibility for the tax measure.

Businesses that want to enjoy the benefits of these tax measures must be located in one of the four BDCs in Laval, Lévis, Saint-Hyacinthe and Sherbrooke.

Foreign specialists in the field of innovation, marketing or transfer of technology, the financing of innovation, training, research and development or in other areas of biotechnology who are working for a company that benefits from these tax measures may also enjoy the tax holiday granted to foreign researchers and specialists (See 3.2.3).

This tax measure is subject to the issuance of an annual certification by Investissement Québec.

3.4 MANUFACTURING SECTOR

There are four important tax components of the Québec government's strategy to strengthen the manufacturing sector in Québec:

- The tax holiday for manufacturing SMBs in remote resource regions;
- The tax credit for the acquisition of manufacturing and processing equipment;
- The tax credit for job creation; and
- The tax credit for workforce skills development.

Moreover, although the capital tax was slated to be eliminated in 2011 for all corporations, the government announced that the capital tax would be eliminated as of March 13, 2008, for manufacturing corporations. In addition to these measures, which are exclusive to Québec, there is the accelerated CCA for manufacturing and processing equipment, as well as the increase in the CCA rate regarding buildings used for manufacturing or processing for both federal and Québec purposes.

Finally, the federal government also gives an investment tax credit for the acquisition of a building and manufacturing and processing equipment to businesses carried on the Gaspé peninsula among other places.

3.4.1 Tax Holiday for Manufacturing SMBs in Remote Resource Regions

The tax holiday for manufacturing enterprises is a partial tax holiday of 75%, available until December 31, 2010, for income tax, capital tax and employer contributions to the Health Services Fund.¹⁰

An annual eligibility certificate will have to be issued by Investissement Québec regarding any taxation year ending after December 31, 2007.

This tax holiday is available to the following corporations:

TAX HOLIDAY FOR MANUFACTURING ENTERPRISES		
Regions	Eligible Corporations	Eligible Activities
Resource regions of Québec		
Gaspésie–Îles-de-la-Madeleine Bas-Saint-Laurent Côte-Nord Nord-du-Québec Saguenay–Lac-Saint-Jean Abitibi-Témiscamingue Part of the Mauricie, Outaouais and Laurentides regions ¹	SMB ² that carries on a manufacturing and processing business ³ in a resource region.	Manufacturing and processing activities, except excluded activities. ⁴

¹ Includes the agglomeration of La Tuque and the following regional county municipalities (RCMs): Antoine-Labelle, Vallée-de-la-Gatineau, Pontiac and Mékinac.

² For purposes of the tax holiday for manufacturing businesses, an SMB is a corporation whose taxable capital for capital tax purposes does not exceed \$20 million. There is a reduced tax holiday when the taxable capital is between \$20 million and \$30 million. In computing a corporation's taxable capital, the capital of all Canadian and foreign corporations in a group must be taken into account.

³ An SMB carries on a manufacturing and processing (M&P) business if more than 90% of its total payroll is incurred in resource regions and if 1) the payroll attributable to the corporation's M&P activities represents more than 50% of its total payroll, or 2) more than 50% of the capital cost of all of its depreciable property is attributable to M&P activities.

⁴ Excluded activities include farming and forestry, fishing, construction (however, prefabricated home construction is eligible), operation of an oil or gas well, extraction of minerals from a mineral resource, wholesale and retail activities, as well as lodging and restaurant activities.

¹⁰ In the Information Bulletin 2009-8 of December 10, 2009, the Québec Finance Minister introduced a limit with respect to the tax assistance for manufacturing SMBs in remote resource regions that a corporation may receive for a taxation year beginning after December 31, 2009.

3.4.2 Tax Credit for the Acquisition of Manufacturing and Processing Equipment

In order to spur manufacturing investments, an investment tax credit is granted for the acquisition of manufacturing and processing equipment¹¹ after March 13, 2008, and before January 1, 2016. The tax credit rate is determined based on the location where the investment is made and the corporation's consolidated paid-up capital.

Investment tax credit rate based on location where the investment is made	Basic rate	Enhanced rate
Intermediary zone Saguenay–Lac-Saint-Jean, Mauricie, Vallée-de-la-Gatineau RCM and Pontiac RCM in Outaouais, Antoine-Labelle RCM in the Laurentides region	5%	20%
Bas-Saint-Laurent (eastern portion) Matapédia RCM, Matane RCM and La Mitis RCM	5%	30%
Bas Saint-Laurent (western portion) Rivière-du-Loup RCM, Rimouski-Neigette RCM, Témiscouata RCM, Kamouraska RCM and Les Basques RCM	5%	20%
Remote resource region Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine	5%	40%
Other	5%	10%

Enhanced rate

In order for a corporation to benefit from enhanced rates, its consolidated paid-up capital from the previous year must not exceed \$250 million. Where a corporation's paid-up capital is over \$250 million but does not exceed \$500 million, the enhanced rates will be reduced on a straight-line basis to a floor rate of 5%.

Refundable tax credit

The refundable tax credit is also determined based on the corporation's consolidated paid-up capital. Therefore, the tax credit is fully refundable when the corporation's paid-up capital does not exceed \$250 million, whereas it is partly refundable when paid-up capital is between \$250 million and \$500 million. The portion of the tax credit that cannot be refunded or used to reduce the corporation's income tax and capital tax can be carried forward over 20 years and carried back three years.

\$75-million cumulative limit

A maximum of \$75 million of eligible investments made by a corporation during a taxation year may qualify for an increased rate, refundability or both of these benefits.

3.4.3 Tax Credit for Job Creation

Two refundable tax credits encouraging job creation in Québec's resource regions are available to new corporations.¹² They are:

- The tax credit for the Vallée de l'aluminium (TCVA); and
- The tax credit for Gaspésie and certain maritime regions of Québec (TCGMR).

¹¹ The manufacturing and processing equipment must be new and must be used within a reasonable time over a period of at least 730 days, solely in Québec.

¹² A third credit, the tax credit for processing activities in the resource regions, is only available for corporations that began to carry on their certified business no later than March 31, 2008. In such a case, an eligible corporation may continue to receive this tax credit at the 20% rate in 2010 and at the 10% rate until 2015 for certain regions.

Generally, the tax credit rate regarding the tax credit for job creation is equal to 20%¹³ of the payroll increase¹⁴ attributable to eligible employees of an eligible corporation operating in a targeted region that carries on a certified business.¹⁵ Eligible corporations are entitled to this credit up to December 31, 2015. Eligible activities vary depending on the region where the business is carried on.¹⁶

Regions	Eligible Corporations	Eligible Activities
Vallée de l'Aluminium		
Saguenay–Lac-Saint-Jean	Corporations that carry on eligible activities or start to carry on eligible activities no later than during the 2015 calendar year and that create at least three full-time jobs.	Manufacturing of finished or semi-finished products from aluminum that have undergone initial processing. Conversion or recycling of waste and residues from aluminum processing. Marketing, design or engineering activities that are incidental to these activities.
Gaspésie and Maritime Regions of Québec¹		
Gaspésie–Îles-de-la-Madeleine Côte-Nord Bas-Saint-Laurent	Corporations that carry on eligible activities or start to carry on eligible activities no later than during the 2015 calendar year and that create at least three full-time jobs.	Processing of sea products. Manufacturing and processing of finished or semi-finished marine biotechnology products. Production of wind power and wind turbine manufacturing. Sea farming. Manufacturing and processing finished or semi-finished products from peat or slate. Marketing, design or engineering activities that are incidental to these activities. All manufacturing activities ² carried out in the administrative region of Gaspésie–Îles-de-la-Madeleine

¹ Activity eligibility criteria vary from one region to another.

² For reference purposes, eligible activities are generally activities included under codes 31, 32 and 33 of the North American Industry Classification System (NAICS codes).

¹³ The rate is 40% for corporations in the marine biotechnology or sea farming sector in Gaspésie and certain maritime regions in Québec. As well, the credit is granted on the entire payroll attributable to eligible employees of the corporation rather than to the payroll increase for the marine biotechnology, sea farming and processing of sea products sector.

¹⁴ The payroll increase must be calculated by comparing the current calendar year to the reference calendar year for all the corporations in a group in Québec. Only employees who spend at least 75% of their time on eligible activities are considered in the payroll calculation.

¹⁵ A certified business is a business regarding which an eligibility certificate has been issued by Investissement Québec.

¹⁶ Credits are subject to the issuance of annual certifications by Investissement Québec, among other conditions.

Starting in 2010, a new system applies to corporations that are eligible for any of these tax credits. The main amendments provided by this new system include a change in the reference calendar year for the purposes of determining the increase in the eligible payroll and an enhancement of the tax credit applicable to the sea products processing sector. Finally, for each of these credits, a corporation may elect to keep the previous system or to apply the new system. The following table illustrates the different rules applicable:

Tax credits for job creation in the resource regions	Tax credit	Reference year
Tax credit for the Vallée de l'aluminium (TCVA)		
Previous system¹		
Corporation that began carrying on its certified business no later than March 31, 2008	30% for 2010	Calendar year preceding the one when it began to carry on a certified business
	20% from 2011 to 2015	2010
New system		
Any corporation no matter when it began carrying on its certified business	20% from 2010 to 2015	Calendar year preceding the one when it began to carry on a certified business ²
Tax credit for Gaspésie and certain maritime regions of Quebec (TCGMR)		
Previous system¹		
Corporation that began carrying on its certified business no later than March 31, 2008	40% for 2010	Calendar year preceding the one when it began to carry on a certified business
	20% from 2011 to 2015	2010
New system		
Any corporation no matter when it began carrying on its certified business	20% from 2010 to 2015	Calendar year preceding the one when it began to carry on a certified business ²
Specific situation – processing of sea products	20% from 2010 to 2015	Not applicable ³
Specific situation – marine biotechnology and sea farming	40% from 2010 to 2015	Not applicable ³

1 A corporation that chooses to keep the previous system for calendar year 2010 can benefit from the tax credit for the acquisition of processing and transformation products for eligible investments made as of the taxation year following the year including December 31, 2010.

2 If the need arises, it is possible to elect as a reference year the calendar year preceding the one regarding which the corporation made the election to claim the ITC for a taxation year ending after March 13, 2008, and for subsequent taxation years.

3 The tax credit is calculated on the total payroll paid to eligible employees and not just the increase in this payroll over a reference year.

Example: A foreign corporation incorporates a subsidiary in Québec in 2010 that carries on a new manufacturing business in Gaspésie. In 2011, the corporation employs 100 people (140 in 2012), 80 (120 in 2012) of whom spend more than 75% of their time on manufacturing, processing and marketing activities. The other employees work in administration. As of 2013, the corporation employs 215 people, 160 of whom spend more than 75% of their time on manufacturing, processing and marketing activities. The average salary of the manufacturing, processing and marketing employees is \$50,000 per year.

The corporation will be eligible for job creation tax credits totalling \$6,800,000, i.e. the equivalent of 20% of the increase in its payroll, which will be determined each year in relation to the reference year, as indicated in the table below. Moreover, under the tax holiday for manufacturing businesses, if the

subsidiary is an SMB,¹⁷ it will enjoy a partial tax holiday of 75% until December 31, 2010, on income tax, capital tax and Health Services Fund contributions.

Years	Number of M&P and Marketing Employees	Payroll for M&P Employees	Tax Credit (20%)
2010	0	Reference Year	
2011	80	\$4,000,000	\$800,000
2012	120	\$6,000,000	\$1,200,000
2013	160	\$8,000,000	\$1,600,000
2014	160	\$8,000,000	\$1,600,000
2015	160	\$8,000,000	\$1,600,000
Total			\$6,800,000

3.4.4 Tax Credit to Promote Workforce Skills and Development

An employer operating in the manufacturing sector¹⁸ may benefit from a tax credit equal to 30% of training expenses incurred after November 23, 2007, and before January 1, 2012, to train employees who mainly carry out or supervise tasks attributable to an eligible activity.¹⁹

The training expenditure eligible for the 30% tax credit corresponds to the total cost of the training for which an employee is registered in addition to the salary paid to the employee during the training period without, however, exceeding twice the cost of the training.²⁰

The application of the tax credit for workforce training in the manufacturing sector is extended to companies in the forest²¹ and mining²² sectors for expenditures incurred after March 19, 2009.

3.4.5 Investment Tax Credit (Federal)

Since 1995, corporations doing business in the Atlantic Provinces, the Gaspé peninsula or a prescribed offshore region have been eligible for a 10% investment tax credit on the cost of new prescribed buildings²³ and new prescribed machinery and equipment²⁴ acquired primarily to be used in certain activities, including:

- Manufacturing or processing goods for sale or lease;
- Logging, farming or fishing; and
- Producing or processing certain natural resources.

¹⁷ For purposes of the tax holiday for manufacturing enterprises, an SMB is a corporation whose taxable capital for capital tax purposes does not exceed \$20 million. There is a reduced tax holiday when the taxable capital is between \$20 million and \$30 million. In computing a corporation's taxable income, the capital of all Canadian and foreign corporations in a group must be taken into account.

¹⁸ Activities related to the manufacturing sector are the same as those included under codes 31, 32 and 33 of the North American Industry Classification System (NAICS codes).

¹⁹ An employee who owns, directly or indirectly, at least 10% of issued shares of any class of the share capital of the company or an associated company is not eligible.

²⁰ In the case of employers subject to the *Act to promote workforce skills development and recognition*, the training expense eligible for the tax credit is equal to the lesser of:

- The training expense eligible for the tax credit; and
- The excess of training expenses incurred by the employer over the required expense under the Act.

²¹ Activities related to the forest sector are the same as those included under NAICS code 113.

²² Activities related to the mining sector are the same as those under NAICS codes 211 and 212.

²³ A prescribed building includes a building or a grain elevator included in Class 1, 3, 6, 8 or 20 and erected on land owned or leased by the taxpayer.

²⁴ The definition of "prescribed machinery and equipment" is very broad and includes the majority of capital expenditures included in Classes 8, 9, 10, 15, 21, 22, 24, 27, 28, 29, 34, 39, 40 and 43, electrical generating equipment included in Classes 1 and 2 and vessels included in Class 7.

3.5 DEVELOPMENT OF E-BUSINESS

In order to encourage the development and expansion of information technologies throughout Québec, the Québec government has created a tax credit to develop e-business. This tax credit is equal to 30% of the eligible wages incurred beginning March 14, 2008 until December 31, 2015, up to an annual limit of \$20,000 per employee.²⁵

To be entitled to this credit, a corporation must have an establishment in Québec where it carries on a business in the information technologies sector.²⁶ Eligible activities include, in particular:

- Information technologies consulting services;
- Development, integration, maintenance and evolution of information systems and technology infrastructures;
- Design and development of e-commerce solutions; and
- Development of security and identification services related to e-commerce activities.

However, the following activities do not represent eligible activities:

- Operation of an e-business solution;
- Operation of a customer contact centre;
- Activities not related to e-business.

3.6 OTHER TAX MEASURES

This section describes the main features of other tax measures used by the government to stimulate Québec's economy.

3.6.1 On-the-Job Training

A number of businesses believe in the benefits of collaboration between the academic and business communities. These businesses complement the theoretical aspects of a student's education with practical training. To encourage these initiatives, the tax system provides a tax credit with respect to student training within such businesses.

A corporation can claim a refundable tax credit equal to 30%²⁷ of a student's salary.²⁸

3.6.2 Francization in the Workplace

A tax credit is granted to corporations for the francization of the workplace in order to help employers in respect to training employees who are immigrants and have insufficient knowledge of French. This credit is equal to 30% of eligible expenditures incurred between March 14, 2008 and December 31, 2012 for training in French provided to an employee who has the status of protected person, permanent resident or temporary resident. Eligible expenses include the cost of training paid by the corporation as well as the salary paid to an employee who takes part in the training.²⁹

²⁵ Which represents a maximum annual salary of \$66,667 per employee calculated on an annual basis.

²⁶ The corporation must obtain an annual eligibility certificate issued by Investissement Québec stating that:

- Activities in the information technology sector constitute at least 75% of the corporation's activities, where at least 50% are included under NAICS codes 511210 and 541510;
- Activities included in NAICS code 541510 consist, in a proportion of at least 75%, in services ultimately provided to persons with whom it is at arm's length or in services relating to applications developed by the corporation that are used exclusively outside Québec, or a combination of these services; and
- That, at any time, these activities require a minimum of six eligible full-time employees, except in situations of activities transfer or business start-ups.

²⁷ 40% when the student is a handicapped person or an immigrant.

²⁸ Eligible expenditures include the salaries of students and their supervisors. Expenditures may not, however, exceed \$600 or \$750 per student per week (\$750 or \$1,050 when the student is a handicapped person) depending on the type of training.

²⁹ Without, however, exceeding twice the cost of the training. For employers subject to the *Act to Promote Workforce Skills, Development and Recognition*, the training expenditure eligible for the tax credit will be equal to the lesser of the following two amounts:

- The expenditure eligible for the purposes of the tax credit; and,

3.6.3 Child Care Spaces

Businesses that create child care spaces for the children of their employees are entitled to a tax credit equal to 25% of eligible expenditures to a maximum of \$10,000 per child care space created.

3.6.4 Multimedia Productions

A tax credit of 26.25% to 37.5% is granted to corporations for eligible multimedia productions. A corporation can claim a credit for each production or for all of its activities when all or substantially all of its activities consist in multimedia productions.

To be eligible, a multimedia production must be for commercial use, published on an electronic medium, controlled by software allowing interactivity, and include at least three of the following four components: text, sound, static graphics or animated graphics. In its March 30, 2010 budget, the Quebec government made certain adjustments to this credit to allow for convergence with digital animation films. Thus, the related titles tied to a principal multimedia title give rise to the tax credit for the production of multimedia titles.

The corporation's labour expense determines the amount of the credit it can claim. The rate varies by category of production and whether a French version is available.

Categories	Basic Credit	Enhanced Credit for French Version
Multimedia productions without purchase order, for marketing	30%	37.5%
Other multimedia productions	26.25%	n/a

3.6.5 Culture Industry

For several years now, the Québec government has promoted the Québec cultural identity by granting several tax credits. More specifically, the:

- tax credit for a Québec film production;
- tax credit for film production services;
- tax credit for the production of sound recordings;
- tax credit for the production of performances;
- tax credit for film dubbing;
- tax credit for book publishing.

3.6.6 Design

Tax incentives for design cover two areas and provide for a refundable tax credit ranging from 15% to 30%. The first area involves design activities of goods made on an industrial basis under an external consulting contract. The second area involves payroll costs incurred by a corporation for fashion designers.

3.6.7 Technological Adaptation Services

A tax credit is granted to businesses for the collection and processing of strategic information as well as for collaboration efforts, research and innovation with different partners.

- The excess of all the training expenditures incurred by the employer on the amount of the expenditure required for the purposes of the Act.

The tax credit is equal to 50% of³⁰:

- 80% of the fees for liaison and transfer services provided by a liaison and transfer centre or by a college centre for the transfer of technology; and
- the cost of training and information activities related to liaison and transfer services.

A credit can be claimed for the following eligible activities:

- locating and brokering research results;
- assessing the needs of businesses;
- bringing together stakeholders;
- the carrying out of technical feasibility studies and studies assessing the commercial potential of innovation projects; and
- supporting businesses through the various stages of innovation project execution.

Liaison and transfer centres are organizations that bring together numerous university, industry and government members whose mission is to enhance the value of enterprises through the transfer of expertise, knowledge, know-how and technologies. The activities of the college centre for the transfer of technology focus on applied research, technical assistance, training, and information monitoring and communication.³¹

3.6.8 International Financial Centres³²

The objective of the International Financial Centres (IFCs) is to promote the implementation, development and retention in the city of Montréal of businesses specializing in international transactions. The March 30, 2010, Québec Budget proposes to replace the current IFC system with a refundable tax credit applying to the salaries paid to employees of an IFC operator. More specifically, all the partial exemptions an IFC operator could benefit from regarding income tax, capital tax and employer contributions to the Health Services Fund (HSF) will be replaced by a refundable tax credit for the IFC operator of up to \$20,000 per eligible employee on an annual basis.³³ Moreover, foreign specialists employed by an IFC are also eligible for the same tax holiday as foreign researchers and specialists.³⁴

3.6.9 Forestry Sector

A credit of 90% for the construction or major repair of access roads and bridges of public interest in the forest is granted to corporations that are party to a forestry improvement contract or agreement with the ministère des Ressources naturelles et de la Faune (MRNF). The credit applies to expenditures incurred between March 24, 2006 and March 31, 2013³⁵ for which a certificate has been issued by the MRNF.

³⁰ Excluding all expenditures eligible to a R&D tax credit for Québec.

³¹ See Appendix 5.

³² See the website of the International Financial Centre of Montréal at <http://www.cfimontreal.com/en/index.asp>.

³³ The credit represents 30% of the salary incurred for an employee. However, the salary may not exceed \$66,667 on an annual basis. Transition rules are stipulated for a corporation that has a valid qualification certificate regarding an IFC in operation on March 30, 2010.

³⁴ See Section 3.2.3. The exemption for the fifth year is equal to 37.5% of the salary received by specialists employed by an IFC.

³⁵ These expenditures will have to be engaged in accordance with what appears in an annual forest management plan submitted to the MRNF before January 1, 2012, and the construction or major repair of the eligible access road or bridge by the corporation or partnership, as the case may be, or on behalf of either of them, must be started before January 1, 2012.

3.6.10 Exploration Expenditures

The tax credit for exploration expenditures varies from 15% to 45% based on the type of resources, where the expenditures are incurred and the type of corporation.

Regions	Eligible corporations	Eligible activities
Throughout Québec	Corporation that incurs exploration expenditures in Québec.	Exploration related to: <ul style="list-style-type: none">• mineral resources;• oil and gas;• renewable energy and energy conservation;• natural resources (cut stone).

3.6.11 New natural gas wells

According to the Mining Act, the holder of a natural gas development lease must pay a royalty corresponding to a percentage of at least 5% and at most 17% of the value of production at the well. The rate depends on the daily production measured in cubic metres. A five-year royalty holiday of up to \$800,000 per well is granted for any well put into production after March 19, 2009 and before January 1, 2011.

3.6.12 Commercialization of intellectual property

A ten-year income tax holiday is being granted to new corporations³⁶ dedicated to the commercialization of intellectual property developed in Québec universities and Québec public research centres.

A commercialization business means a business regarding which the Ministère du développement économique, de l'Innovation et de l'Exportation (MDEIE) issues a certificate stipulating that the only purposes of the business are, as the case may be:

- making and selling goods more than 50% of whose value stems from eligible intellectual property;
- making and selling goods of which an essential component is an eligible intellectual property;
- the licensing of computer programs that are eligible intellectual property.

³⁶ The corporation must be incorporated in Canada after March 19, 2009 and before April 1, 2014 and begin to carry on a commercialization business within 12 months of its incorporation.

4. COMMODITY TAXES AND PERSONAL TAXATION

In Québec, most commercial transactions are subject to the 5% Goods and Services Tax (GST) and the 7.5% Québec Sales Tax (QST) (note that as of January 1, 2011, the QST will be increased to 8.5%). GST and QST apply on the supply or importing of tangible and intangible movable and immovable property, as well as services. There are some exceptions, however. For example, goods and services to be exported, basic food and prescription drugs are generally zero-rated, that is, they are taxable, but at a zero rate. Other supplies are tax-exempt, such as some goods and services supplies by public service or charitable organizations, used residential buildings and medical services. Financial services are zero-rated under QST and taxable under GST.

As the GST and QST are both value-added taxes, the cost is borne by the final consumer. Thus, if a corporation does business in Québec and is a GST and QST registrant, it normally should not have to absorb any cost with respect to these taxes on its transactions. Input tax credits (ITC) under the GST regime and input tax refunds (ITR) under the QST regime make it possible for GST and QST registrants to obtain a refund of taxes paid or payable for supplies acquired in connection with their commercial activities. A registrant may claim an ITC/ITR on taxable goods and services (including zero-rated supplies), whereas corporations may not claim an ITC/ITR in respect of tax-exempt transactions. ITCs and ITRs are applied against GST and QST collected by a registrant. Registrants must remit the difference to the tax authorities and will receive a refund for negative amounts. GST remittances and claims are made on the same form either monthly, quarterly or annually, depending on the circumstances.

In some cases, tax-exempt supplies may entitle the supplier to specific partial refunds.

In general, a corporation must register for GST and QST purposes if it operates a business in Canada (in Québec for QST purposes) and carries out taxable transactions in connection with a commercial activity. There is one exception. A person does not have to register if the person is a small supplier, i.e. a person who completed less than \$30,000 of taxable transactions³⁷ and zero-rated transactions during the four previous calendar quarters.³⁸

4.1 IMPORTS – GST AND QST

Imported goods are subject to GST at customs. However, a corporation can generally claim GST paid on imports as an ITC if it is a GST registrant.

There is no QST when commercial goods clear customs, however, the importer is required to self-assess if the goods are used in tax-exempt activities.

4.2 EXPORTS – GST AND QST

Exported goods are not subject to GST and QST. The general principle for exports of services is that GST will not be collected from a customer who is not a resident of Canada and QST will not be collected from a customer who is not a resident of Québec. Some exceptions apply, for example, when the service relates to tangible real property or immovable property in Québec/Canada.

4.3 SPECIFIC PROVISIONS REGARDING QUÉBEC SALES TAX

Since the QST regime is essentially harmonized with the GST system, most transactions subject to GST are also subject to QST, which is calculated on the transaction value including GST³⁹.

³⁷ Transactions of all corporations in a same group have to be considered in order to determine the amount of taxable transactions.

³⁸ Although in certain cases a corporation may not be required to register, it can do so voluntarily.

³⁹ For example, a \$100 transaction will be calculated as follows: \$5.00 GST and \$7.88 QST ($(\$100.00 + \$5.00) \times 7.5\%$).

However, a large business⁴⁰ for QST purposes cannot claim an ITR for QST paid with respect to restricted expenses, in particular, certain expenses for electricity, road vehicles, combustibles and fuel, telephone services and meals and entertainment.

4.4 OTHER PROVINCIAL SALES TAXES

The other Canadian provinces, with the exception of Alberta, levy a sales tax.

The Harmonized Sales Tax (HST) system applies in New Brunswick, Newfoundland and Nova Scotia. As of July 1, 2011, the HST system will expand to Ontario and British Columbia. The HST is a value-added tax, like the GST and QST. The HST rules are identical to GST rules and the HST rate includes 5% GST.

Province	HST Rate
British Columbia	12%
New Brunswick, Newfoundland and Ontario	13%
Nova Scotia	13% until June 30, 2010 15% as of July 1, 2010

Retail sales taxes, similar to the U.S. Sales & Use Taxes, apply in Saskatchewan, Prince Edward Island, Manitoba, in British Columbia (until June 30, 2010) and Ontario (until June 30, 2010). Under the retail sales tax systems, most transactions for goods and certain services for the final consumer are subject to the provincial sales tax.

4.5 OTHER TAXES

Certain products, including tobacco products, fuel and alcoholic beverages are subject to Canada's excise tax and certain specific Québec taxes.

4.6 PERSONAL TAXATION

Under Canada's tax system, the income tax payable by individuals depends on whether they are residents or non-residents of Canada. Individuals who are resident in Canada during a taxation year are subject to Canadian income tax on their world income. Non-resident individuals only have to pay Canadian income tax on their income earned in Canada. Individuals are subject to provincial income tax on their world income if they are resident in that province on December 31.

In general, individuals are considered to be resident of the Canadian province where they have substantial residential ties, i.e. the place where their dwelling or home is located and where the individual's spouse and children live. The facts of each situation have to be analyzed and a number of other criteria also have to be taken into consideration, including the tax treaties signed by Canada.

⁴⁰ Generally, a corporation is considered to be a large business for QST purposes if the total of taxable sales from a permanent establishment in Canada and those of its associated companies is more than \$10 million for a given taxation year.

5. ADDITIONAL INFORMATION

It is difficult to compare the tax systems of any two countries because of the many differences that may exist between the two systems. Therefore, it cannot be said that one system is superior to the other simply based on corporate tax rates. Managers of corporations have to evaluate a country's tax system based on their own situation, taking into account the rules for computing taxable income, income tax rates, capital taxes, payroll taxes and commodity taxes, as well as the various tax measures.

Overall, Québec's tax system is very competitive because of its low corporate tax rates, the rules for computing taxable income and the various credits and tax holidays available to corporations.

This brochure provides an overview of the taxation of corporations in Québec. It does not contain all of the often complex details with respect to these measures. The authors and editors are not responsible for the consequences of any decision made based on the information herein, or for any error or omission. A tax specialist should be consulted for additional explanations.

Information about all of the measures discussed in this brochure can be obtained from Raymond Chabot Grant Thornton.



**Raymond Chabot
Grant Thornton**

www.rcgt.com

Jean Gauthier, CA
gauthier.jean@rcgt.com
514 393-4789

Renée Gladu, CA
gladu.renee@rcgt.com
819 822-4017

Norman Angell, CGA,
angell.norman@rcgt.com
418 647-3256

Daniel Lachapelle, CA
lachapelle.daniel@rcgt.com
514 393-4786

Guy Lemieux, CA, M.Tax
lemieux.guy@rcgt.com
418 562-0203

Christian Menier, CA, M.Tax
menier.christian@rcgt.com
418 549-4142

Gisèle Prévost, CA, TEP, LL. M.Tax
prevost.gisele@rcgt.com
613 236-2211

Johanne Quessy, CA, M.Tax
quessy.johanne@rcgt.com
819 825-6226

You can also contact:



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infoiq@invest-quebec.com
1 866 870-0437

APPENDIX 1

NET COST OF R&D EXPENDITURES – SMB¹

The result will be the same whether the enterprise has profits or losses, regardless of the industry.

Example 1: A corporation incurs \$100,000 of R&D expenditures, i.e. \$65,000 for the salary of a researcher, \$15,000 on subcontracting in Québec and \$20,000 for materials.

Example 2: A corporation incurs \$100,000 of R&D expenditures, i.e. \$60,000 for the salary of a researcher, \$30,000 for materials and \$10,000 for equipment.

	Example 1	Example 2
Expenditures	\$	\$
A Salaries	65,000	60,000
B Subcontracting	15,000	-
Materials	20,000	30,000
Equipment		10,000
C Total R&D expenditures	100,000	100,000
Québec tax credit (A + B/2) × 37.5%	27,188	22,500
Federal tax credit		
Total expenditures (C)	100,000	100,000
Overhead (A × 65%) ²	42,250	39,000
Less Québec credit	(27,188)	(22,500)
D Expenditures eligible for credit	115,062	116,500
E (D × 35%)	40,272	40,775
F Total tax credits	67,460	63,275
Net cost to corporation before income taxes (C-F)	32,540	36,725
Tax savings		
Federal ((C - F) × 11.0%)	3,579	4,040
Québec ((C - E) × 8.0%)	4,778	4,738
G Total tax savings	8,357	8,778
Net cost to corporation (C-F-G)	24,183	27,947

¹ For purposes of Québec tax credit, an SMB is a Canadian-controlled private corporation whose assets in the financial statements of all the corporations in the group are less than \$50,000,000.

For purposes of the federal tax credit, an SMB is a Canadian-controlled private corporation whose taxable income and taxable capital for all the corporations in the group do not exceed \$500,000 and \$10,000,000 for the preceding taxation year respectively.

² Proxy method used to calculate overhead. Under this method, actual overhead is replaced by 65% of R&D salaries.

APPENDIX 2

NET COST OF R&D EXPENDITURES – LARGE CORPORATION OR FOREIGN-CONTROLLED CORPORATION¹

The result will be the same, regardless of the industry.

Example 1: A corporation incurs \$100,000 of R&D expenditures, i.e. \$65,000 for the salary of a researcher, \$15,000 for subcontracting in Québec and \$20,000 for materials.

Example 2: A corporation incurs \$100,000 of R&D expenditures, i.e. \$60,000 for the salary of a researcher, \$30,000 for materials and \$10,000 for equipment.

	Example 1	Example 2
Expenditures	\$	\$
A Salaries	65,000	60,000
B Subcontracting	15,000	--
Materials	20,000	30,000
Equipment		10,000
C Total R&D expenditures	100,000	100,000
Québec tax credit (A + B/2) × 17.5%	12,688	10,500
Federal tax credit		
Total expenditures (C)	100,000	100,000
Overhead (A × 65%) ²	42,250	39,000
Less Québec credit	(12,688)	(10,500)
D Expenditures eligible for credit	129,562	128,500
E (D × 20%)	25,912	25,700
F Total tax credits	38,600	36,200
Net cost to corporation before income taxes (C-F)	61,400	63,800
Tax savings		
Federal ((C - F) × 18.0%)	11,052	11,484
Québec ((C - E) × 11.9%)	8,816	8,841
G Total tax savings	19,868	20,325
Net cost to corporation (C-F-G)	41,532	43,475

¹ Profitable corporation.

² Proxy method used to calculate overhead. Under this method, actual overhead is replaced by 65% of R&D salaries.

APPENDIX 3

NET COST OF R&D EXPENDITURES – LARGE CORPORATION OR FOREIGN-CONTROLLED CORPORATION¹

The result will be the same, regardless of the industry.

Example 1: A corporation incurs \$100,000 of R&D expenditures, i.e. \$65,000 for the salary of a researcher, \$15,000 for subcontracting in Québec and \$20,000 for materials.

Example 2: A corporation incurs \$100,000 of R&D expenditures, i.e. \$60,000 for the salary of a researcher, \$30,000 for materials and \$10,000 for equipment.

	Example 1	Example 2
Expenditures	\$	\$
A Salaries	65,000	60,000
B Subcontracting	15,000	-
Materials	20,000	30,000
Equipment		10,000
C Total R&D expenditures	100,000	100,000
Québec tax credit ($(A + B/2) \times 17.5\%$)	12,688	10,500
Federal tax credit		
Total expenditures (C)	100,000	100,000
Overhead ($A \times 65\%$) ²	42,250	39,000
Less Québec credit	(12,688)	(10,500)
D Expenditures eligible for credit	129,562	128,500
E (D × 20%)	0	0
F Total tax credits	12,688	10,500
Net cost to corporation (C-F)	87,312³	89,500³

¹ Corporation suffering losses.

² Proxy method used to calculate overhead. Under this method, actual overhead is replaced by 65% of R&D salaries.

³ The difference between Appendix 2 and Appendix 3 can be made up if the corporation earned profits in the three previous years or if it earns profits in the next 20 years.

APPENDIX 4

ENTITIES ELIGIBLE FOR UNIVERSITY R&D CREDIT

Government research centres

One of the following research centres of the Department of Agriculture and Agri-Food of the Government of Canada:

- Food Research and Development Centre;
- Horticulture Research and Development Centre;
- Dairy and Swine Research and Development Centre;
- Soils and Crops Research and Development Centre;

Centre d'aide technologique aux entreprises – Côte-Nord (CATE Côte-Nord);

DRDC Valcartier;

Aerospace Manufacturing Technology Centre;

Maurice Lamontagne Institute of the Ministry of Fisheries and Oceans, Canada;

Health of Animals and Food Laboratory of the Canadian Food Inspection Agency;

CANMET Energy Technology Centre (CETC);

Centre de recherche industrielle du Québec (CRIQ);

Institut de la technologie du magnésium (ITM);

Institut de recherche d'Hydro-Québec;

Laboratoire des technologies de l'énergie d'Hydro-Québec (LTE);

National Research Council Canada Biotechnology Research Institute;

National Research Council Canada Industrial Materials Institute;

National Optics Institute (INO);

Centre de recherche appliquée de l'Institut de tourisme et d'hôtellerie du Québec;

Centre de santé et de services sociaux (CSSS) de Chicoutimi.

College technology transfer centres

Most of the college technology transfer centres (CTTC) in Appendix 5 are eligible for the University R&D credit. Contact the CTTC of your choice to ensure that it is eligible for the University R&D credit.

Other prescribed entities

Centre national du transport en commun inc. (CNTC);
Centre interuniversitaire de recherche en analyse des organisations (CIRANO);
IDÉA innovation PME;
Centre de géomatique du Québec (CGQ);
Centre de valorisation des plantes;
Centre de recherche Les Buissons inc. (CRLB);
Institut universitaire de gériatrie de Sherbrooke;
Corporation du Service de recherche et d'expertise en transformation des produits forestiers (SEREX);
Centre de foresterie des Laurentides (CFL);
Réseau d'informations scientifiques du Québec (RISQ);
Centre de recherche sur les biotechnologies marines (CRBM);
Centre de développement bioalimentaire du Québec inc. (CDBQ);
Centre d'expertise en production ovine du Québec (CEPOQ);
Centre d'expérimentation et de transfert technologique en acériculture (CETTA);
Centre d'aide régional sur les aliments du Saguenay–Lac-Saint-Jean–Côte-Nord (CARA).

Eligible universities

All Universities in Québec;

The following medical research university hospital centres:

- The following McGill University network centres:
 - Douglas Institute's Research Centre;
 - Douglas – Mental Health University Institute;
 - Sir Mortimer B. Davis Jewish General Hospital;
 - Montréal General Hospital Research Institute;
 - McGill University Health Centre (MUHC);
- The following Université de Montréal network centres:
 - Institut du cancer de Montréal;
 - Montréal Heart Institute;
 - Institut de réadaptation Gingras-Lindsay de Montréal;
 - Institut de recherches cliniques de Montréal;
 - Hôpital Louis-H. Lafontaine;
 - Hôpital Maisonneuve-Rosemont;
 - Hôpital du Sacré-Cœur de Montréal;
 - CHU Sainte-Justine;
 - Institut universitaire de gériatrie de Montréal (IUGM) (formerly Centre hospitalier Côte-des-Neiges)
 - CHUM (including Hôpital Notre-Dame, Hôpital Saint-Luc and Hôtel-Dieu de Montréal);
 - Institut Philippe-Pinel de Montréal;

- The following Université Laval network centres:
 - Institut universitaire de cardiologie et de pneumologie du Québec;
 - Centre hospitalier universitaire de Québec (CHUQ);
 - Centre hospitalier *affilié* universitaire de Québec;
 - Centre hospitalier universitaire de Sherbrooke (CHUS);
- A subsidiary wholly-owned corporation of such a centre;
- A non-profit corporation under the authority of such a centre;
- Centre de recherche informatique de Montréal (CRIM);
- Canadian Centre for Automatization and Robotics in Mining (CCARM);
- Mineral Exploration Research Institute;
- Société de microélectronique industrielle de Sherbrooke (SMIS);
- Centre for Characterization and Microscopy of Materials (CM)²;
- Centre de recherche de l'Université Laval Robert-Giffard (CRULRG);
- Institut de recherche en pharmacie industrielle IRPI inc.;
- Institut de recherche en biologie végétale (IRBV);
- Centre de recherche en calcul appliqué (CERCA);
- Centre de recherche Louis-Charles-Simard;
- Canadian Dental Research Institute (CRDI);
- Centre François-Charron;
- Institut des biomatériaux du Québec (IBQ);
- Centre de développement rapide de produits et de procédés.

Research Consortium

FPIinnovations;

COREM.

APPENDIX 5

ENTITIES ELIGIBLE FOR TECHNOLOGICAL ADAPTATION SERVICES CREDIT

The “eligible liaison and transfer centres” are:

- Centre de recherche en calcul appliqué – CERCA;
- Centre de recherche informatique de Montréal – CRIM;
- Centre francophone d’informatisation des organisations – CEFRIO;
- Centre interuniversitaire de recherche en analyse des organisations – CIRANO;
- Centre québécois de recherche et de développement de l’aluminium – QQRDA;
- Centre québécois de valorisation des biotechnologies – CQVB.

The “eligible college technology transfer centres” are:

(An eligible collegiate technology centre includes an affiliated prescribed research centre)

- Agrinova – Recherche et innovation en agriculture;
- Biopierre – Centre de développement des bioproduits;
- Centre collégial de transfert de technologie en télécommunications – C2T3;
- Centre collégial de transfert de technologie en imagerie numérique et médias interactifs – CIMMI;
- Centre d’enseignement et de recherche en foresterie de Sainte-Foy – CERFO;
- Centre d’études des procédés chimiques du Québec – CEPROCQ;
- Centre d’excellence en maintenance industrielle – CEMI;
- Centre d’expérimentation et de développement en forêt boréale – CEDFOB;
- Centre d’innovation en microélectronique du Québec – CIMEQ;
- Centre d’innovation sociale en agriculture – CISA;
- Centre de développement des composites du Québec – CDCQ;
- Centre de géomatique du Québec – CGQ;
- Centre de production automatisée – CPA;
- Centre de productique intégrée du Québec – CPIQ;
- Centre de robotique et de vision industrielles – CRVI;
- Centre de technologie minérale et de plasturgie inc. – CTMP;
- Centre de transfert technologique en écologie industrielle – CTTEI;
- Centre des technologies de l’eau – CTE;
- Centre intégré de fonderie et de métallurgie – CIFM;
- Centre national en électrochimie et en technologies environnementales – CNETE;
- Centre spécialisé de technologie physique du Québec inc. – CSTPQ;
- Centre spécialisé en pâtes et papiers – CSPP;

Centre technologique des résidus industriels – CTRI;
Centre technologique en aérospatiale – CTA;
Cintech agroalimentaire – Centre d'innovation technologique en agroalimentaire;
ECOBES – Groupe d'Études des Conditions de vie et des Besoins de la population;
EQMBO - Entreprises – Centre d'aide technique et technologique en meuble et bois ouvré;
Groupe CTT – Centre d'excellence des technologies textiles, géosynthétiques et matériaux souples;
Halieutec – Centre collégial de transfert de technologie des pêches;
Innovation maritime – Centre de recherche appliquée en technologies maritimes;
Institut de recherche sur l'intégration professionnelle des immigrants – IRIPI;
Institut de technologie des emballages et du génie alimentaire – ITEGA;
Institut des communications graphiques – ICGQ;
Institut du transport avancé du Québec – ITAQ;
Institut international de logistique de Montréal – IILM;
MECANIUM – Centre d'innovations en mécanique industrielle;
OLEOTEK – Centre collégial de transfert de technologie en oléochimie industrielle;
OPTTECH – Centre collégial de transfert technologique en optique-photonique;
Service de recherche et d'expertise en transformation des produits forestiers – SEREX;
TechnoCentre éolien – Centre CORUS;
Trans Bio Tech – Centre de recherche et de transfert en biotechnologies.

