



Québec

**: A Dynamic and Profitable
Business Environment**

Table of contents

Home	3
Sector Profile.....	4
Vehicle Manufacturers and Assemblers Operating in Québec	5
Competitive Advantages.....	6
Automotive.....	7
Just-in-time Delivery	8
Light Metals Expertise	9
Niche of Excellence in Advanced Ground Transportation.....	10
Industry-leading Companies	11
Labour	14
Training.....	15
Research & Development.....	16
Operating Costs	20
Labour.....	21
Energy Prices	22
Financial Solutions and Taxation	23
Measures to Stimulate R&D	25
Corporate Tax Rates	26
Tax Holiday for Foreign Researchers.....	28
Choose Investissement Québec	29

Home

There Are Several Good Reasons to Invest in Québec

Québec is the ideal choice for ground transportation-related investments, a choice that **Bombardier, Rio Tinto Alcan, Paccar et Volvo (NovaBus, Prevost Car)** all agree on.

Let's look at the advantages Québec has to offer in the heart of the most populated and industrialized area on the North American continent:

- A critical mass of companies;
- A wealth of raw materials, such as aluminum;
- Low-cost energy;
- Effective transport infrastructures;
- A qualified labour force; and
- Dynamic research and training facilities.

" Our good relations with the union and the pride our employees take in making quality products and constantly improving are some of the reasons why Bridgestone decided to continue making Joliette a major production centre." — Robert Verreault, Plant General Manager, Bridgestone, 2009.

Your company is growth-minded. Expand your horizons in Québec.

Last update: November 2009

Sector Profile

Québec's land transportation industry, which generates annual revenues of CDN\$7.2 billion, encompasses 800 companies with over 35,000 employees.

The industry is composed of four main sectors:

- **The automotive sector**, totalling 250 companies with 12,000 employees (Rio Tinto Alcan, Mecachrome Technologies, Raufoss Canada, Solutia Canada, Waterville TG);
- **The commercial-vehicle sector**, with 155 companies and 5,000 jobs (Paccar, Volvo-NovaBus/Prévost Car, Camoplast, Multina);
- **The recreational and special-vehicle sectors**, representing 280 companies and 12,000 jobs (Bombardier Recreational Products, CVTech, Doral, Manac);
- **The rolling-stock sector**, consisting of 42 companies and 5,220 employees (Bombardier Transport).

Sector Profile

Vehicle Manufacturers and Assemblers Operating in Québec

VEHICLE MANUFACTURERS AND ASSEMBLERS OPERATING IN Québec

Commercial Vehicules

Autobus Girardin
Paccar Canada
NovaBus (Volvo)
Prévost Car (Volvo)

Products or Services

School Buses and minibus
Medium- and heavy-duty trucks
Transit buses
Inter-city buses, top-of-the line motor homes

Recreational Vehicules

Bombardier Recreational Products (BRP)
Doral
Princecraft
Campagna Motors

Products or Services

Snowmobiles and Sea-Doo personal watercraft, VTT Can-Am, Spyder Roaster
Boats
Boats
Three wheels vehicules

Railroad Transport

Bombardier Transport

Products or Services

Train and subway cars

Special Vehicules

Manac
Groupe environnemental Labrie
Van Action

Products or Services

Commercial trailers
Material handling equipment, garbage truck
Adapted vehicules

Sector Profile

Competitive Advantages

Major Competitive Advantages

If you are looking for the best location to launch a company or expand your activities, Québec offers optimum conditions.

According to KPMG 2008 ...

- **Advantageous Operating Costs** - Manufacturing costs for auto parts in Québec are, on average, 11.8% lower than in the U.S.
- **Workforce** - Québec's abundant, qualified labour force is, on average, 15% less expensive than in the G7 countries.

Natural Resources

Québec is the world's fourth-largest aluminum producer. This material is increasingly used in motor-vehicle manufacturing. According to a KPMG study (2008), Québec produces an abundant supply of electricity, at rates that are among the lowest in North America.

Transport Infrastructures

Québec has two international airports, as well as efficient road and railway networks. The Port of Montréal provides access to markets in Central Canada and the Midwestern and Northeastern United States.

Research

Large research facilities conduct research projects on:

- new materials (aluminum, magnesium and composites);
- new propulsion methods (electric and hybrid);
- hydrogen fuel;
- automotive electronics;
- polymers and plastics.

Sector Profile

Automotive

This sector includes two market segments:

- **The original equipment manufacturer (OEM) market**, that is, for original equipment used on assembly lines;
- **The aftermarket**, or replacement parts and accessories.

These two market segments are mainly composed of small and medium-sized businesses, two-thirds of which employ fewer than 100 people, and more than half are ISO- or QS 9000-certified.

The automotive sector includes 12,000 jobs through 250 companies.

Exports represent 75% of automotive sector production and are distributed as follows:

- 49% in the U.S.;
- 23% in Canada;
- 3% elsewhere in the world.

Sector Profile

Just-in-time Delivery

The Québec automotive industry is closely linked to that of the U.S. Thanks to efficient railway and road networks, original equipment manufacturers in Québec are able to meet the just-in-time manufacturing requirements of auto manufacturers.

Furthermore, Québec's major carriers own regional warehouses in the U.S. and benefit from transshipment agreements with U.S. partners, which enable them to ensure just-in-time delivery throughout the continent.

The Québec industry has earned an excellent reputation in distributing spare parts; for example, companies such as Uni-Sélect, Belron, CarQuest and UAP were established in Québec almost 80 years ago.

Québec also has several providers of logistics services, such as Syncreon, Groupe Robert (transport) and Bourret Transport. These companies are best known for their knowledge of the automotive industry and their value-added services.

Sector Profile

Light Metals Expertise

Québec's expertise in light metals definitely counts as a competitive advantage. Furthermore, the abundance of industrial materials enables automobile parts manufacturers and auto manufacturers to have ready access to what they need.

Québec is the third-leading producer of primary aluminum in the world, after China and Russia, and accounts for 92% of all of Canada's aluminum production.

Aluminum production in Québec is:

- Three producers: Rio Tinto Alcan (5 smelters), Alcoa (3 smelters) and Aluminerie Alouette;
- Production capacity of 3.1 million tons per year;
- 23% of the primary aluminum produced in Québec undergoes its initial processing here;
- 13,000 employees in the primary and primary processing sectors.

Aluminum Smelters in Québec		
Company	Employees	Production capacity-2007 (tons/year)
Rio Tinto Alcan Inc. (5 smelters)	3,416	1,116,000
Alcoa (3 smelters)	2,866	1,097,000
Aluminerie Alouette Inc.	900	573,000
TOTAL	7,182	2,786,000

Source: Ministère du Développement économique, de l'Innovation et de l'Exportation, 2009.

Companies that choose to set up their operations in the Saguenay-Lac—Saint-Jean region can benefit from highly advantageous tax incentive: a tax credit for Aluminum Valley.

Sector Profile

Niche of Excellence in Advanced Ground Transportation

For over ten years, companies and institutions in the Laurentides region (north of Montréal) have been positioning themselves in the field of advanced ground transportation. The Québec government recognized this well-established sector as a "niche of excellence" in its regional economic development strategy (known by its French acronym, ACCORD), which is aimed at enabling the regions to position themselves as hubs of expertise in order to meet the challenges of globalization and the knowledge economy.

The region has almost 70 companies producing goods and services relating to the transportation field: Raufoss, NovaBus (Volvo) and Paccar, for example, rank among the leaders in their field.

- The city of Saint-Jérôme, considered a lead city in advanced transportation, has the largest fleet of electric vehicles in Canada;
- The city of Sainte-Thérèse has an urban electric vehicle assembly pilot project (NEMO);
- In 2006, a Toronto-based company, Zenn Motors, set up operations in Saint-Jérôme, where it produces its small electric car, called the ZENN (Zero Emission No Noise);
- Several research and experimental centres are located in the region: Centre des matériaux composites (advanced composites centre), Centre national du transport avancé (CNTA), Institut du transport avancé (institute of advanced transportation) (ITAQ) and PMG Technologies.

Industry-leading Companies

AMT Die Casting Inc.

AMT operates 11 injection presses for moulding aluminum parts. The company is primarily an automotive parts subcontractor and uses state-of-the-art equipment for production and quality control: extractor robot, X-ray machines, spectrometer, etc.

Bombardier Transportation

Bombardier Transportation leads the world's rail equipment manufacturing and servicing industry. Its vast product line includes passenger rail vehicles and rail transportation equipment. The group also manufactures locomotives, bogies, propulsion and control systems and rail control solutions.

Bridgestone/Firestone Canada Inc. (BFCA)

The Bridgestone Group is the world's largest tire and rubber company. BFCA manufactures and markets the full line of Bridgestone and Firestone tires. The Joliette plant, 45 minutes from Montréal, produces 15,000 tires per day for passenger vehicles, light trucks and sport utility vehicles.

Camoplast Inc.

Camoplast designs and manufactures products for the automotive industry and for heavy- transport, utility, agricultural and recreational vehicles. The company has eight plants in Québec as well as an R&D centre in Sherbrooke. Camoplast produces rubber tracks for snowmobiles and agricultural equipment, thermoplastic parts and components for trucks and recreational vehicles.

Dynacast Canada Inc.

Dynacast originally manufactured zippers. The company has since become a world leader in precision die casting of zinc, aluminum and magnesium parts. The Montréal plant has a floor area of over 8,000 square metres. The company makes parts mainly for the telecommunications, IT, consumer electronics and automotive markets.

Georg Fisher Canada

Founded in 1802, Georg Fisher is a Swiss multinational with revenues in excess of CDN\$3.4 billion. The company employs 12,000 people worldwide and specializes in the production of aluminum and magnesium pressure die cast parts. It designs, machines, assembles and finishes its parts, which are intended for the electric and electronic equipment, construction hardware and automobile markets.

Mark IV Automotive

Mark IV Automotive manufactures original and replacement parts for the automotive industry. Its Canadian subsidiary, Montréal-based MARK IV Air Intake Systems, produces plastic air intake systems and introduced an innovative injection-moulding process previously unused in North America.

Maxtech

Maxtech is an automotive parts manufacturer. In Québec, its Powder Metal division makes moulded steel and stainless steel parts for the automotive industry, in addition to tools, hardware, home appliances, medical equipment and much more. The facility also houses an R&D centre.

Mecachrome

Mecachrome manufactures metal parts for the automotive, car racing, aeronautics and industrial equipment industries. Its products are used in helicopters and aircraft made by Boeing, Lockheed, Sikorsky, Bombardier, Airbus, Embraer, Israel Aircraft Industries, Parker Aerospace, SAAB and others.

Mégatech Électro

Mégatech Électro manufactures electronic and electromechanical products for the transportation sector. Its customers include Bombardier, Prévost Car and Carrier Corporation. The company makes coach dashboards, utility-vehicle control systems, motor control and gearbox management units and other electronic or electromechanical products.

Mittal Canada

Mittal Canada produces more than 42 million tonnes of steel annually. The Mittal Canada factory in Contrecoeur is the fourth-largest steelmaker in Canada and the only one in the country to produce steel from iron reduced to solid state. The company also has facilities in Longueuil and Montréal.

Multina

Multina designs and manufactures seating for recreational vehicles: snowmobiles, all-terrain vehicles (ATVs), motorcycles, boats and personal watercraft.

Nova Bus

Nova Bus is owned by Volvo Bus Corporation, the world's second largest motorcoach and transit bus manufacturing group. Nova Bus is a North American leader in sustainable public transit solutions, including low-emission vehicles, articulated buses and integrated intelligent transportation systems. The company operates two plants in Québec.

Paccar

Paccar assembles medium- and heavy-duty trucks at its plant in Sainte-Thérèse, north of Montréal. It is the only North American plant to produce more than one make of truck. Recently, Paccar recently began assembling hybrid trucks for Coca-Cola.

Prevost

Prevost is a leading North American manufacturer of premium touring coaches and bus shells for high-end motorhomes and specialty conversions. Owned by Volvo Bus Corporation, Prevost has access to the financial strength, product development capabilities and quality manufacturing technology of the world's second largest motorcoach and transit bus manufacturing group.

Raufoss Automobile Components Canada

The Raufoss plant in Boisbriand, near Montréal, is part of the Austrian-based multinational Neuman Aluminium. The company manufactures lightweight aluminum automotive chassis, and specializes in front and rear suspension arms. The highly specialized facility stands out for its exclusive patented technology: parts are not moulded or poured, but forged. The plant has some 70 employees and puts strong emphasis on training and knowledge transfer.

Rehau Industries Inc.

Rehau supplies polymer products to the automotive, construction and other industries. The company operates a 10,000-square-metre extrusion plant in Montréal that manufactures bumpers, mouldings, pipes, trim and other parts for the automotive industry.

Spectra Premium Industries Inc. (SPI)

SPI manufactures replacement fuel tanks for the automotive and industrial parts markets. It also produces radiators and radiator parts, new condensers and rebuilt oil pans. The company also operates in the oil-pan and fuel-gauge markets. SPI has facilities in Boucherville and Laval, near Montréal, as well as an Ontario plant.

Syncreon

Syncreon specializes in complex automotive logistics. The company is present in 10 countries throughout the Americas, Europe and Asia. It provides integrated logistics services that include packaging, sequencing, supply-chain management, lot-material delivery and partial assembly.

Timken

The Timken Company specializes in bearings and other antifriction systems used in industry, particularly the automotive and aeronautics sectors. The Bedford plant manufactures planet shafts, pump vanes and needle bearings intended mainly for the automotive transmission market.

Waterville TG Inc.

Waterville TG manufactures sealing systems for the automotive industry. Its products are sold to large automakers like Toyota, DaimlerChrysler, Honda, Mitsubishi, Ford, GM, Mazda, Suzuki, Isuzu and Saab. In Québec, the company operates plants at Waterville and Coaticook, and has a distribution centre in Sherbrooke.

Labour

An Abundant, Qualified Labour Force

Compared to OECD countries, Québec ranks second in education expenditures as a proportion of GDP. That financial effort has paid dividends, translating into a university graduation rate well above the OECD average, especially for bachelor's and master's degrees:

- Over 68,000 university degrees were awarded in Québec in 2008, including more than 11,400 in the pure and applied sciences;
- In 2006, Québec was ranked in the top five in mathematics, reading and science by the OECD's Programme for International Student Assessment (PISA), based on assessments carried out in 57 countries.

University Degrees Awarded in Québec - 2008

	By program	By field
Bachelor's Degree	34,931	-
Master's Degree	10,325	-
Doctorate	1,616	-
Health Sciences	-	6,021
Pure Sciences (mathematics, chemistry, biology)	-	3,130
Applied Sciences (Engineering, computer science, architecture)	-	8,261
Law and Business	-	23,744
Arts and Letters	-	5,805
Other	21,482	21,393
TOTAL	68,354	68,354

Source: Ministère de l'éducation du Québec, *Statistiques détaillées de l'éducation*, May 2009.

Labour Training

Québec produces more than 8,000 graduates annually in applied sciences (engineering, information systems, architecture). Montréal is first in North America for the number of university students per capit, ahead of Boston and Denver (Montréal International, 2008).

The automotive industry is specifically noted for its important metallurgical training infrastructure.

Three Québec universities offer complete metallurgical engineering programs and specific training in aluminum processing:

- McGill University;
- École Polytechnique; and
- Université Laval.

Several colleges offer a three-year technical training program in aluminum processing, and many secondary schools provide vocational metallurgy programs with over 1,600 degrees awarded each year. The training centres include:

- **Centre intégré de fonderie et de métallurgie (CIFM)**
The integrated foundry/metallurgy centre in Trois-Rivières offers college-level training, as well as product and processing development services and expert laboratory services to companies.
- **CEGEPs** (technical colleges) in Alma and Chicoutimi offer a joint program in Metallurgical Engineering Technology, including transformation processing, fabricated metals and material control.
- **Centre de formation et de développement en métallurgie (CFDM)**
The metallurgy training and development centre in La Baie, located in the Saguenay region, specializes in moulding and casting of light metals.

Research & Development

Québec does very well in the research & development of light metals, among other things, that are essential to the ground transportation equipment industry.

Major Public Research Centres in Québec, Automotive Sector

Federal government centres	Specialty	Location
Industrial Materials Institute (IMI)	Manufacturing technologies relating to materials, polymers, ceramics, etc.	Boucherville
Aluminum Technology Centre (ATC)	Development of aluminum-based technologies, products and value-added services	Saguenay
Québec government centres		
Centre de recherche industrielle du Québec (CRIQ)	Applied research on materials	Montréal and Québec City
University centres		
Centre de recherche en plasturgie et en composites (CREPEC) - École Polytechnique	Development of new polymer materials, material characterization, simulation and calculation	Montréal
Concordia Centre for Advanced Vehicle Engineering (CONCAVE)	Expertise in mechanical, electrical and computer engineering. Vehicle design and testing	Montréal
Centre for Composites, Concordia University	Basic research on light metals, ceramics, polymers	Montréal
Groupe sur les procédés et les systèmes industriels intelligents (PSI2-GIQ, at Université Laval).	Development of innovative technologies. Testing of products for the automotive sector (inspection systems for parts)	Québec City

Intelligent Materials and Systems Institute (IMSI) at Université de Sherbrooke

Multidisciplinary research on materials, structures and intelligent systems. Member of the Canadian Network of Centres of Excellence—AUTO21

Sherbrooke

McGill Metals Processing Centre

Study of metallurgical processes and materials

Montréal

Université du Québec à Chicoutimi (UQAC)
Three industrial chairs and the Centre universitaire de recherche sur l'aluminium (CURAL)

Process engineering, use of aluminum in automobiles, aluminum metallurgy

Saguenay

News of Interest

Volvo to invest \$176 million in Québec

The investment, over five years, is aimed at two of its key divisions, Prevost and Nova Bus, which will allow the company to drive R&D efforts, develop and market new products, and increase production capacity.

Inauguration of the Centre de technologies avancées BRP - Université de Sherbrooke

The new centre will require a total investment of \$36.1 million, including \$8.5 million to be allocated by the ministère du Développement économique, de l'Innovation et de l'Exportation for construction of the building and service infrastructures. BRP and the Université de Sherbrooke are contributing \$15.6 million and \$2.1 million respectively. Lastly, Economic Development Canada will provide financial assistance of \$9.9 million.

BRP Corporation and the Université de Sherbrooke inaugurated an advanced technology centre in June 2008. The centre will develop new technologies in the field of motorized recreational vehicles. Within five years, the centre is expected to employ fifty people, mainly researchers and engineers.

Other Areas of Interest to Researchers Include

New Propulsion Methods

- **Centre national du transport avancé (CNTA)**
The electric vehicle experimentation centre aims to promote the development of advanced transport, especially of electric cars.
- **Institut du transport avancé du Québec (ITAQ)**
The Québec institute for advanced transportation mainly focuses on energy efficiency in motor vehicles and new propulsion methods.
- **TM4**, a member of the Hydro-Québec group, designs and markets high-density and energy-efficient electrodynamic solutions, and has developed the electric motor-wheel, among other innovations.
- **Hydro-Québec's Research Institute (IREQ)** supports Hydro-Québec's various divisions by carrying out technological innovation projects in cooperation with universities, research centres and industry.

Intelligent Systems

The Intelligent Materials and Systems Institute (IMSI), affiliated with Université de Sherbrooke and a member of the AUTO21 network, focuses on intelligent systems and sensors. A team has, for example, worked on a GPS tracking system for motorists.

New Fuels

- **Institut de recherche sur l'hydrogène**
The institute of research on hydrogen, at Université du Québec à Trois-Rivières, pursues R&D activities in hydrogen storage, safety and use. The institute also has a Centre for Inspection with Ultrasonics (CIUS).
- **HERA**, a joint venture of Hydro-Québec, GfE and Shell Hydrogen, develops and markets hydrogen safety storage solutions.
- **The Institut de recherche d'Hydro-Québec** is focused on the development of safe, efficient methods of storing hydrogen.

Testing

PMG Technologies' testing and research centre boasts 25 kilometres of test tracks and proving grounds, as well as laboratories. Unique in Canada, the Centre is equipped to conduct many transport vehicle or equipment tests and evaluations.

AUTO21: A Network of Centres of Excellence

AUTO21 is a national research initiative supported by the Government of Canada. It is a network consisting of universities, companies, government departments and agencies that promote research in various automotive industry-related sectors.

AUTO21 supports more than 230 researchers in 35 universities, government research facilities and private research laboratories. More than 120 participating researchers and fellows in Québec take part, at the following schools:

- Université de Sherbrooke (intelligent systems and sensors);
- McGill University (next-generation steels, manufacturing and inspection);
- École Polytechnique (polymer composites);
- Université du Québec à Trois-Rivières (hydrogen safety and infrastructure).

Operating Costs

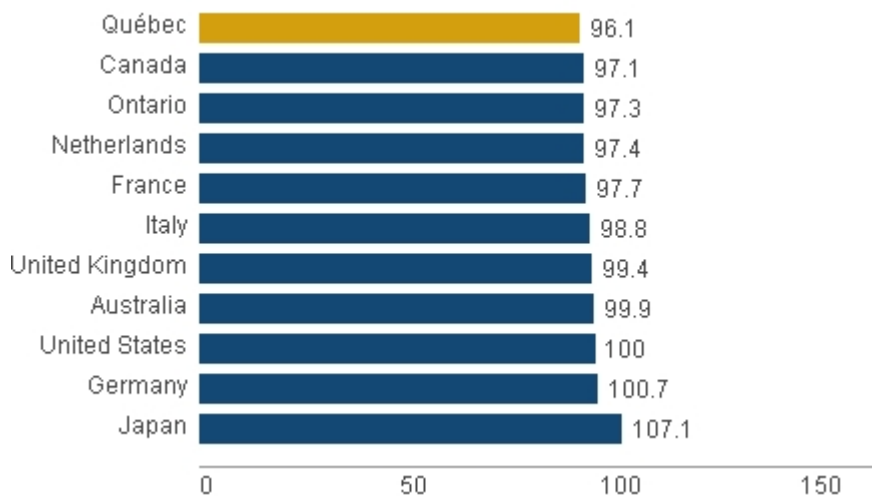
Advantageous Operating Costs

A productive labour force with competitive prices, low-cost energy, lower construction fees, favourable tax incentives—all these factors combined reduce operating costs in Québec.

According to the 2010 KPMG comparative study on International Business Location, the annual operating costs of an auto parts manufacturing company are 3.9% lower, on average, in Québec than in the United States.

Comparison of Annual Operating Costs

Auto parts (Index US = 100)



Source: KPMG's Guide to International Business Location—2010 Edition.

Operating Costs Labour

Competitive Labour Costs

According to a KPMG study (2010), labour costs are more competitive in Québec than in other industrialized countries.

In the automobile sector, labour costs are, on average, 15% lower than in the G7 countries, in particular because salaries are lower in Québec.

Here is an example of cost differential and distribution in total pay for a worker in Québec and in the United States.

Comparison of Average Pay in Québec and in the United States (US\$, Automotive Industry)					
	Average salary (KPMG)	Statutory benefits	Optional benefits	Sub-total: Social benefits (Statutory & optional)	Total pay
Montréal, QC	48,810	6,100	12,410	18,510	67,320
Chicago, IL	49,680	5,020	19,480	24,500	74,180
Saginaw, MI	48,280	4,270	18,930	23,200	71,480
Detroit, MI	49,080	4,340	19,240	23,580	72,660

Source: *KPMG's Guide to International Business Location-2010 Edition.*

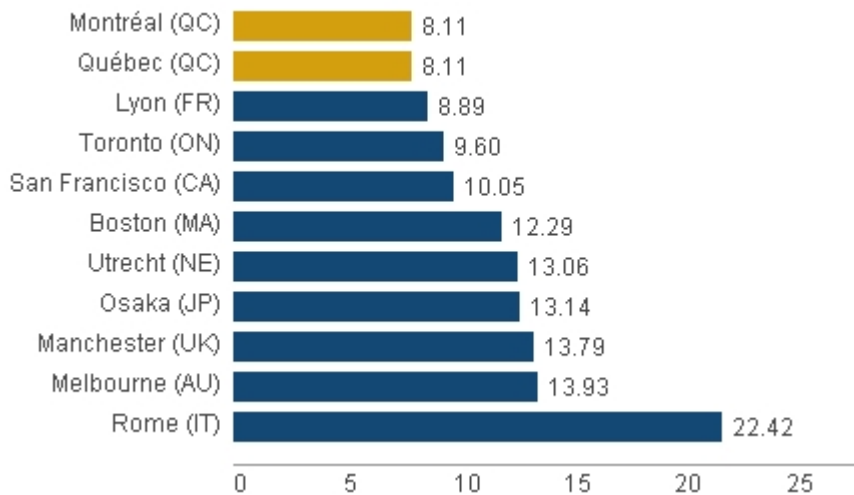
Operating Costs Energy Prices

Unbeatable Energy Prices

Electricity rates in Québec are among the most attractive and stable in North America.

International Comparison of Electricity Costs, 2010

(Average of 17 industries, US¢/kWh)



Source: KPMG's Guide to International Business Location—2010 Edition.

Financial Solutions and Taxation

Financial Solutions for you

Investissement Québec can assist you with your expansion plans, providing consulting services as well as financing assistance. In addition to being an economic development agency, we are also a financial institution. We have several financial solutions for you.

SMB Financial

We can provide a loan guarantee, i.e. a guarantee applicable to a loan, line of credit or letter of credit granted by a financial institution. We also offer loans.

Renfort

We can offer you a loan guarantee or a loan ranging from \$250,000 to \$15 million to improve your working capital or finance the purchase of equipment.

Aluminum Valley

Eligible companies with aluminum manufacturing or processing operations (finished or semi-finished products) in the Saguenay—Lac-Saint-Jean region can obtain a tax credit until December 31, 2015.

Tax Holiday for Manufacturing SMBs in Remote Resource Regions

A company carrying out manufacturing or processing activities in a remote resource region may claim an exemption of 75% regarding income tax, tax on capital and the employer contribution to the Health Services Fund (HSF).

Strategic Support for Investment Program (PASI)

If your company is planning an investment or seeking to develop a new product, we can provide various types of loans, a loan guarantee or a non-repayable contribution.

The Strategic Support for Investment Program (PASI) favours investments that target diversification or consolidation of a particular sector, and product development that is distinctive because of its innovative nature and commercial potential.

Other government programs can assist companies in the automotive and transportation sector:

Investment Tax Credit

A business that acquires new manufacturing and processing equipment before January 1, 2016 can receive this tax credit, which can vary between 5% and 40% depending on the region.

Emploi-Québec Employment Assistance

Financial assistance provided by Emploi-Québec, jointly with administrations in Québec's regions, to share the cost of training and recruitment of the employees needed for project start-ups.

Feasibility Study of an Investment Project

Financial contribution to companies that want to carry out an investment project in Québec. The program is administered by the Québec government's Ministry for Economic Development, Innovation and Exports and can cover up to 40% of the fees of experts to carry out feasibility studies to a maximum grant of CDN\$100,000. Eligible activity sectors are manufacturing, recycling, business services, industrial research and development, and scientific services.

Industrial Research Assistance Program (IRAP)

Shared-cost financial assistance of the research and development of technical projects at the pre-competitive stage. This National Research Council program is available to Canadian SMBs; i.e., companies with less than 500 employees.

Financial Solutions and Taxation Measures to Stimulate R&D

Certain Québec tax measures enable companies to realize considerable savings on R&D costs. The real cost of a CDN\$100 R&D expenditure may be as low as CDN\$40.

Net cost of CDN\$100,000 R&D expenditures incurred in Québec by a large corporation or by a foreign-controlled corporation in the manufacturing sector

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

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

Expenses	Example 1 (\$)	Example 2 (\$)
A - Salaries	65,000	60,000
B - Subcontracting services	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) X 17.5%	12,688	10,500
Federal tax credit		
Total expenditures (C)	100,000	100,000
Overhead (A X 65% ¹)	42,250	39,000
Less Québec credit	<u>(12,688)</u>	<u>(10,500)</u>
D - Expenditures eligible for credit	129,562	128,500
E - (D X 20%)	25,912	25,700
F - Total tax credits	<u>38,600</u>	<u>36,200</u>
Net cost for the corporation (C-F)	<u>61,400</u>	<u>63,800</u>
Tax savings (when profits are earned)		
Federal ((C - F) X 19%)	11,666	12,122
Québec ((C - E) X 11.9%)	<u>8,816</u>	<u>8,841</u>
G - Total tax savings	20,482	20,963
Net cost for the corporation (C-F-G)	<u>40,918</u>	<u>42,837</u>

¹ Proxy method used to calculate overhead. Under this method, overhead actually incurred is replaced by 65% of R&D salaries.
Source: Investissement Québec and Raymond Chabot Grant Thornton, April 2009.

Financial Solutions and Taxation Corporate Tax Rates

Among the Lowest Tax Rates in North America

In Québec, the corporate tax rate of 29.90% is one of the lowest in North America. Québec's tax system is also very competitive regarding job creation and capital investment.

Comparison of Income Tax Rates, 2010 Québec, Ontario and American States Manufacturing Companies

	Federal ¹	Province/ State	Effective Tax Rate (%)		Outside of the reference city
			City/ ² certain states	Total	
Québec	18.00	11.90	--	29.90	--
North Carolina *	29.65	6.90	--	36.55	--
Illinois	29.52	6.64	--	36.17	--
Michigan *	29.60	6.05	1.00 ³	36.65	35.97
Ohio	31.21	-- ⁴	--	33.21	31.85
Pennsylvania	26.61	9.09	6.45 ⁶	42.15	38.66

[1] In Canada, the federal tax rate is 11% for private Canadian-controlled companies with taxable income of less than CAN\$500,000. In certain provinces, reduced rates are also applicable to small businesses. The 2010 general rate of 18% will pass to 16.5% in 2011 and 15% as of 2012.

In the United States, the general tax rate of 35% varies depending on the corporation's taxable income. For U.S. manufacturing companies, a deduction of 9% of the profit related to production activities or taxable income is available for 2010 and thereafter, which means an actual rate reduction of 3.15%. This deduction was 3% for 2005, 2006 and 6% for 2007, 2008 and 2009.

* Certain States, such as Arkansas, California, District of Columbia, Georgia, Hawaii, Indiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Oregon, South Carolina, Connecticut, Tennessee, Texas and West Virginia, Wisconsin do not apply the federal deduction for manufacturing production.

City and state taxes are generally deductible from U.S. federal tax. The actual U.S. federal tax rate takes this deduction into account.

[2] Most of the rates provided for cities are from 2009, since some rates for 2010 were not available when this document was published.

[3] Several cities in the state of Michigan levy an income tax which is generally 1%. However, the cities of Saginaw, Grand Rapids and Highland Park levy taxes of 1.5%, 1.3% and 2% respectively.

[4] The corporate franchise tax has been eliminated for most business corporations starting with report year 2010 (taxable year 2009). However, a new tax, the "Commercial Activity Tax", has been progressively introduced over the last few years and it is being phased-in with a rate of 0.26% on the taxable gross receipts for the tax years beginning after January 1, 2010.

[5] Several cities in Ohio have corporate income tax. The rates of cities vary between 0.5% and 2.85%. The rate indicated above is for Cleveland. Please note that the tax rate for Dayton is 2.25%.

[6] City of Philadelphia. A 0.1415% tax on gross income must be calculated in addition to the income tax.

Source: Investissement Québec and Raymond Chabot Grant Thornton, 2010.

Financial Solutions and Taxation

Tax Holiday for Foreign Researchers

Foreign researchers employed by a company in Canada that does R&D in Québec benefit from a provincial tax holiday on their salary for five consecutive years. It is a declining tax holiday computed as follows: 100% of employment income the first two years, 75% the third year, 50% the fourth year and 25% the fifth year. This measure also applies to other foreign experts; e.g., managers working in innovative fields.

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