Investissement Québec

CDBs
Biotechnology Development Centres

Biotechnology development centres (CDBs) were established to bring businesses together at designated sites, to encourage the start-up and growth of businesses carrying out activities involving biotechnology innovation, to foster the creation of scientific research networks maximizing synergy and cooperation, and to provide these businesses with facilities adapted to their needs.

The 2004-2005 Budget Speech of March 30, 2004, introduced significant changes to the tax measures supporting innovative activities and the execution of innovation projects in the biotechnology field.

This detailed fact sheet presents in a general way the various information relating to the tax measure that supports the carrying out of innovation activities in the biotechnology sector as the measure applies since March 31, 2004. Certain parallels are drawn with the tax measure that was available before this date for corporations carrying out an innovative project in biotechnology, as well as with the tax measure available before June 12, 2003, for corporations carrying out specified activities in biotechnology.

Nature of Tax Assistance and Transitional Provisions

Since March 31, 2004, tax assistance granted to corporations carrying out innovation activities in biotechnology has been standardized. To do so, the concept of an innovative project has been abolished as it relates to carrying out activities in a CDB. In addition, corporations that wish to benefit from tax assistance connected to CDBs are no longer required to isolate certain activities within a new corporation.

Consequently, we have to deal with tax measures granting tax benefits that vary according to the nature of activities certified and according to the date the corporation became eligible.

- A CORPORATION CARRYING OUT AN **INNOVATIVE PROJECT IN BIOTECHNOLOGY** HAVING SUBMITTED ITS WRITTEN APPLICATION FOR AN ELIGIBILITY CERTIFICATE TO INVESTISSEMENT QUÉBEC **BEFORE JUNE 12, 2003**;

  The tax benefits granted to such corporations are the following:

  - A five-year tax holiday comprising:
    - an income tax exemption (Québec);
    - an exemption from the tax on capital;
    - an exemption from employer contributions to the Health Services Fund (FSS).
  - A 40% refundable tax credit on wages paid to eligible employees (maximum of $15,000 per employee).
  - A 40% refundable tax credit on the cost of purchasing or leasing eligible property (specialized material).
  - A 40% refundable tax credit on one-time rental expenses in respect of eligible specialized facilities at each CDB.

Generally speaking, when control of a corporation eligible for such tax assistance is acquired after June 11, 2003, the tax assistance the corporation could receive effective the calendar year of acquisition will be tax assistance reduced by 25%, which is the tax assistance available after March 30, 2004, for corporations carrying out innovation activities in biotechnology, as described below. Rules of exception have, however, been provided in this area making it possible to maintain assistance at the levels indicated above. These rules are set forth in the detailed fact sheet relating to the CDB tax measure (innovative project).

A foreign specialist employed by such a corporation can benefit from a tax holiday on income earned from that corporation. Details of this tax holiday can be found in the “foreign specialist” fact sheet.

- A CORPORATION CARRYING OUT AN **INNOVATIVE PROJECT IN BIOTECHNOLOGY** HAVING SUBMITTED ITS WRITTEN APPLICATION FOR AN ELIGIBILITY CERTIFICATE TO INVESTISSEMENT QUÉBEC **AFTER JUNE 11, 2003, BUT BEFORE MARCH 31, 2004**;

  These corporations are entitled to the above-mentioned tax benefits reduced by 25%. Therefore, generally speaking, this assistance relating to the five-year tax holiday represents 75% of otherwise eligible amounts. The various refundable tax credits are granted at a rate of 30% (a tax credit of up to $11,250 on wages and salaries per employee).

  Generally speaking, the tax holiday granted for a foreign specialist employed by a corporation will be 75% of the income from employment by it. Details of this tax holiday are found in the “foreign specialist” fact sheet.

- A CORPORATION CARRYING OUT **INNOVATION ACTIVITIES IN BIOTECHNOLOGY** HAVING SUBMITTED ITS WRITTEN APPLICATION FOR AN ELIGIBILITY CERTIFICATE TO INVESTISSEMENT QUÉBEC BEFORE JUNE 12, 2003 (SPECIFIED ACTIVITIES), OR AFTER MARCH 30, 2004;

  The tax benefits granted to such corporations are the following:

  - A refundable tax credit of 30% for wages and salaries paid to eligible employees (maximum of $11,250 per employee), or of 40% (maximum of $15,000 per employee) if the corporation submitted its request for eligibility for such activities before June 12, 2003.
  - A refundable tax credit of 30% on the cost of acquiring or leasing eligible property (specialized equipment) acquired or leased after March 30, 2004;
  - A refundable tax credit of 30% on the cost of the short-term rental of eligible specialized facilities at each CDB, incurred after March 30, 2004.

  This level of assistance is also applicable to corporations that benefited from the tax measure relating to carrying out an innovative project in a CDB before March 31, 2004, and that have ceased carrying out their innovative project. Such a corporation may benefit from the tax benefits connected to the above-mentioned acquisition or lease only for the remaining eligibility period associated with these tax credits, taking into account the elapsed portion of the applicable eligibility period.

  A foreign specialist employed by such a corporation can benefit from a tax holiday on income from employment by it. The level of tax assistance will be changed so that it declines during the five-year exemption period. Details of this tax holiday can be found in the “foreign specialist” fact sheet.

Designated Sites

Corporations wishing to take advantage of the tax benefits associated with innovation activities in biotechnology must set up operations in one of the four designated CDB sites, located in the following cities:

- Laval
- Sherbrooke
- Saint-Hyacinthe
- Lévis

Eligible Corporation

To be eligible for the tax measure relating to innovation activities in biotechnology, a corporation must hold an eligibility attestation issued by Investissement Québec confirming that it carries out such activities in one of the four CDBs.

However, the following corporations do not qualify:

- Corporations that are exempt from tax for the year in question;
- Crown corporations or subsidiaries wholly controlled by such a corporation.

To obtain an initial eligibility attestation, a corporation must fill out and submit the appropriate form to Investissement Québec, along with the required documentation. This form is available on the Investissement Québec's Web site or from the Department of Fiscal Measures of Investissement Québec.

Subject to an advance ruling, a letter of intent is issued to the corporation by Investissement Québec. The corporation will then be able to enter into a lease agreement in a CDB. Investissement Québec will then issue an eligibility attestation.

Eligible Activities

The tax credit is intended for companies carrying out an expansion project creating jobs in the biotechnology sector, particularly in human health, animal or plant agro-biotechnology, the environment, and animal or human nutrition.

The activities eligible for this tax measure essentially correspond to the ones that qualify for the tax measure relating to carrying out specified activities in a CDB; namely, activities that target innovation in the biotechnology field.

Consequently, certain activities cannot qualify for this tax credit. **Among others**, these are activities connected to market analysis and development, credit arrangement, preparation of business plans, financing of fixed assets, advertising, promotion, production, processing, or marketing.

Eligible Employee

In order to be eligible for tax assistance relating to wages and salaries, the corporation must, each year, obtain an eligibility certificate for eligible employees from Investissement Québec.

To qualify, an employee must **directly** carry out, supervise, or support tasks related to carrying out an "eligible activity" of the corporation.

For example, the following duties and tasks are excluded:

- Publicists, telemarketing representatives, marketing, sales and communications, marketing research, and public relations specialists (i.e. services primarily connected to the Sales Department);
- Administrative services and clerical support (i.e. accounting, collection, reception services, and human resources);

- Corporate services (i.e. senior management, managerial staff, legal affairs, and finance;
- Customer service in particular through a technical-support centre;
- Personnel involved in the search for mandates.

As well, pursuant to his work contract, an employee must occupy a full-time position and work a minimum of 26 hours per week for a minimum employment period of 40 weeks.

Finally, the employee must be present at the employer's establishment located in the CDB for all or almost all (90%) of his work hours with this employer. There are, however, exceptions to this condition. When an otherwise eligible employee receives professional training at the request of his employer, even outside the CDB, the employee is deemed to have complied with the condition of being present in the CDB for the duration of such training, provided that he receives his usual remuneration during the training period.

The second exception applies when part of the activities must be carried out in a research centre with specialized equipment, or, as applicable, in a natural setting; and Investissement Québec considers that it is not reasonable to request that the tasks relating to these activities be carried out inside an establishment of the employer located in the CDB. In performing such tasks, the employee is deemed to be performing his duties within the establishment of his employer located in the CDB.

The same applies to the time spent using an eligible specialized facility leased by his employer and connected to the CDB where his employer leases premises.

We should specify that this second exception does not apply to employees who must perform a significant part of their duties at clients' premises, even if this work is carried out inside a designated site. By the same token, it cannot apply to duties performed by an employee of a corporation outside a designated site when these duties are performed in another establishment of the corporation or in an establishment of a person with whom the corporation does not operate at arm's length.

CORPORATIONS THAT CARRIED OUT AN INNOVATIVE PROJECT BEFORE MARCH 31, 2004.

The eligibility conditions applicable to employees working for corporations that benefit from the tax measure relating to carrying out an innovative project in a CDB differ from those stated above. For example, to be eligible, an employee must be present at the employer's establishment located in the CDB for more than 50% of his or her work hours with this employer. In addition, the employee's tasks must almost exclusively (90% or more) be devoted to carrying out the innovative project.

Eligible Wages or Salary

The tax credit of 30% for wages and salaries is based on the "eligible wages and salary" of each employee for whom an annual attestation was issued by Investissement Québec.

For purposes of calculating the tax credit for the taxation year, the expression "eligible wages and salary" means the wages and salary paid by the corporation to an employee during this year for time spent by the employee carrying out tasks directly connected to the "eligible activities" of his employer. The salary considered for calculation of the tax credit is subject to an annual limit of $37,500.

Therefore, during that taxation year, when all of the tasks performed by an employee for a corporation do not meet the program requirements, the corporation will still be able to receive an eligibility attestation for this employee for that part of his tasks that meets the eligibility requirements.

For example, an employee who during a taxation year performs management and development tasks may be eligible for the tasks directly connected to development. Should part of the time spent performing the latter tasks represent 50% of the employee's work time, for the purposes of the calculation of the tax credit the eligible wages or salary incurred by the corporation for the employee equals 50% of the lesser of $37,500 and the wages or salary actually paid (considering that the employee qualifies for a 365-day taxation year).

Considering the salary limit mentioned above, the amount of tax assistance relating to wages and salaries cannot exceed $11,250 per “eligible employee” annually.

CORPORATIONS ELIGIBLE BEFORE JUNE 12, 2003

Subject to compliance with the various conditions relating to these measures, especially the rules governing control of a corporation, corporations that before June 12, 2003, submitted a written application for eligibility to carry out an innovative project or specified activities in a CDB can benefit from this tax credit at a rate of 40%. In such a case, the amount of the tax credit relating to wages and salaries cannot exceed $15,000 per “eligible employee” annually.

Period of Eligibility for the Tax Credit on Wages

An eligible corporation can benefit from a refundable tax credit for wages and salaries paid to its eligible employees starting on the effective date of its eligibility attestation, as indicated on the attestation issued to the corporation.

Generally speaking, the effective date of the eligibility attestation corresponds to the date of entering into a lease for premises in a CDB. Other dates may, nevertheless, be considered under certain specific circumstances.

If the corporation’s eligibility period begins before 2004, the corporation may take advantage of the tax credit for a period of 10 years. If the eligibility period begins after 2003, the corporation may take advantage of the tax credit on wages incurred up to December 31, 2013.

The end of the eligibility period depends on the date that the corporation became eligible for one or another tax measure connected to carrying out activities in biotechnology including tax measures connected to carrying out specified activities or an innovative project.

Qualified Property (Special Material) and Tax Credit on Acquisition Costs and Rental Expenses

To determine whether property may qualify, the following and other criteria will be taken into account:

- The property must be purchased or leased by the corporation during the first three years of eligibility.
- It must be new when the corporation acquires or leases it.
- It must be depreciable for the purposes of the *Taxation Act*. The depreciable property must be corporeal property, except in the case of specialized application software or systems software.
- It must be used entirely or almost entirely (90% or more) within the corporation or that part of the corporation eligible for tax assistance for eligible employees within a reasonable time of the acquisition or rental of such equipment or materials.
- The property acquired must be used primarily, i.e. over 50% of the time, at the CDB for a minimum of three years.
- Leased property must be used primarily, i.e. more than 50% of the time, at the CDB for the leasing period covered by the eligibility certificate that entitles the corporation to the tax credit.

The following types of property do not qualify:

- Property in inventory, promotional material, property consumed as part of the innovative project and incorporeal property.

- Furniture, e.g. chairs, desks and cupboards, and general-purpose equipment, e.g. photocopiers and fax machines.

The corporation may take advantage of a 30% tax credit on qualified property as defined above, i.e. for the acquisition costs or leasing expenses incurred by the corporation in respect of this property during the first five years of its eligibility for this measure.

CORPORATIONS ELIGIBLE BEFORE JUNE 12, 2003, OR MARCH 31, 2004

A corporation that was eligible for the tax measure relating to carrying out specified activities in a CDB before June 12, 2003, can benefit from this tax credit. In this event, the property must have been acquired or leased by the corporation during a period beginning on March 31, 2004, and ending three years after the coming into force of an eligibility attestation relating to carrying out specified activities. The credit will represent both 30% of the cost of acquisition or 30% of the rental expenses incurred by the corporation for the property, for a period beginning on March 31, 2004, and ending five years after the effective date of the eligibility attestation relating to the carrying out of specified activities.

A corporation that before March 31, 2004, held an eligibility attestation for carrying out an innovative project in a CDB will continue to benefit from this tax credit at the rate of 40% provided that it continues to carry out its innovative project and that it meets the requirements of this measure as specified prior to March 31, 2004, which included rules regarding control of a corporation. In this event, the property must be used entirely or almost entirely (90% or more) for carrying out the innovative project.

Specialized Facilities and Tax Credit on Eligible Rental Expenses

The operation of a business in the biotechnology sector usually requires the one-time use of certain specialized facilities (eligible facilities). A corporation eligible for the present tax measure can benefit from a refundable tax credit equal to 30% of the amount of eligible short-term leasing costs incurred by it during the five first years of eligibility for the measure.

An “eligible facility” is defined as a facility for which the lessor thereof has obtained an eligibility certificate from Investissement Québec. For a tax credit to be claimed on rental expenses, the facility must be specifically associated with the CDB at which the corporation is carrying out its eligible activities.

Such a facility can be located **inside** the CDB concerned. In this case, the following conditions must be met:

- The facility must be located outside the premises of a corporation that is carrying out eligible activities.
- The facility must include, nearly exclusively, specialized material used in the biotechnology field.
- When the specialized material is set up at the CDB concerned, it must be new and be intended to be rented on a one-time basis to several persons.

Specialized facilities located **outside** a CDB include:

	SPECIALIZED FACILITIES
For the CDB in Laval	▪ A specialized facility of the Institut national de recherche scientifique (INRS), used in the field of biotechnology and located in the City of Biotechnology and Human Health of Metropolitan Montréal. ▪ A specialized facility of the Centre québécois d'innovation en biotechnologie (CQIB) used in the biotechnology field and located in the Laval CDB.
For the CDB in Sherbrooke	▪ A specialized facility of the Faculty of Medicine at Université de Sherbrooke, used in the field of biotechnology and located on the east campus of the University. ▪ A specialized facility of the Centre hospitalier universitaire de Sherbrooke (CHUS), used in the field of biotechnology and located on the CHUS site.
For the CDB in Saint-Hyacinthe	▪ A specialized facility of Cintech agroalimentaire, used in the field of biotechnology and located in the City of Saint-Hyacinthe. ▪ A specialized facility of the Food Research and Development Centre (FRDC), used in the field of biotechnology and located in the City of Saint-Hyacinthe. ▪ A specialized facility of Institut de biotechnologie vétérinaire et alimentaire (IBVA), used in the field of biotechnology and located in the City of Saint-Hyacinthe.
For the CDB in Lévis	▪ A specialized facility of the Centre collégial de transfert en biotechnologie (Transbiotech), used in the field of biotechnology and located in Lévis. ▪ A specialized facility in the department of chemistry and biology at Cégep de Lévis-Lauzon, including exclusively the chemistry and biology laboratories, used in the field of biotechnology and located in Lévis.

The term "eligible rental expenses" refers to expenses attributable to the rental of eligible facilities, including expenses attributable to property that is consumed in connection with the use of the facilities and that is essential to such use, as well as expenses related to services attributable to an operator, a technician or any other person whose services are essential to the use of eligible specialized facilities.

CORPORATIONS ELIGIBLE BEFORE JUNE 12, 2003

A corporation that was eligible for the tax measure relating to carrying out specified activities in a CDB before June 12, 2003, can benefit from this tax credit, representing 30% of eligible short-term rental costs of such facilities for a period beginning on March 31, 2004, and ending five years after the effective date of the eligibility attestation relating to carrying out specified activities.

A corporation that before June 12, 2003, held an eligibility attestation for carrying out an innovative project in a CDB will continue to benefit from this tax credit at the rate of 40%, provided that it continues to carry out its innovative project and that it meets the requirements of this measure as established prior to March 12, 2003, which included rules regarding control of a corporation.

Interaction with Other Tax Credits, Assistance, Benefits and so on

The *Taxation Act* stipulates that the total amount of the wages paid to eligible employees by an "eligible corporation" in a taxation year must be reduced by the amount of any governmental or non-governmental assistance, any benefit or advantage, according to rules similar to those applicable to other refundable tax credits. This also applies to acquisition costs, rental expenses or eligible rental expenses (eligible facilities).

As of April 22, 2005, reimbursement of assistance, a benefit or another amount that previously served to reduce the amount of a taxpayer's expense for which a tax credit was awarded will be added to the amount of the expense for application of the tax credit to which that taxpayer will be entitled.

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

Specific rules are provided with regard to the cumulation of tax credits. Generally speaking, an expenditure relating to an activity for a given period cannot entitle the applicant to claim more than one refundable tax credit with respect to that same expenditure, whether for one or more taxpayers.

To obtain additional information on this specific aspect in the calculation of the tax credit, please consult the general information service of Revenu Québec.

Annual Certificates

When an "eligible corporation" files its annual tax return, and for each taxation year for which it wishes to claim the tax assistance, the "eligible corporation" must:

- Prove to Investissement Québec that it is occupying the designated building or, if the space is still not available for occupation, prove that it is maintaining its lease and that it will occupy the space as soon as possible[1].

- Obtain from Investissement Québec eligibility certificates for each of the employees and properties for which the tax credit will be claimed. The eligibility certificates must be included with the corporation's tax return submitted to Revenu Québec for the taxation year for which the credit is claimed (taxation year of the expenditure).

  As for the latter condition, the *Taxation Act* grants the corporation a period of 18 months from the last day of the taxation year for which the tax credit is claimed to produce its eligibility certificates. This may, however, require that the corporation amend its tax return.

Requests for annual certificates must be made on the forms available on the Web site or from the Department of Fiscal Measures of Investissement Québec.

Finally, to ensure the eligible corporation does not lose its entitlement to the tax credit, applications for annual attestations must be filed with Investissement Québec before the end of the fifteenth (15th) month following the end of the corporation's fiscal year. To be valid, the application must be duly completed and accompanied by all the documents required for issuing of the attestation.

[1] Note that the activities carried out by a specified corporation during the transitional period before it moves into a designated site have to be carried out in Québec in order to qualify for tax assistance.

Maintenance of Certificates

The right to, and encashment of, tax benefits are subject to compliance by exempt corporations with their commitments made to move into their space in the designated building as soon as the space is available. Consequently, failure to occupy the space allocated in the designated building and in respect of which the corporation received an eligibility certificate for the tax measure may compromise the future issuance of annual certificates and compel Investissement Québec to revoke the certificates issued for previous years. Such revocations could trigger a recovery mechanism in respect of the tax credits claimed for previous years and cause the corporation to lose the benefit of tax holidays in past and future years, in accordance with the *Taxation Act*.

Special Tax

The *Taxation Act* stipulates that a qualified corporation that has benefited from a tax credit on wages, acquisition costs or rental expenses for eligible property or the rental expenses for an eligible facility may be subject in a given taxation year to a special tax under the specific circumstances indicated in the *Act*. For example, in the event that the qualified corporation is reimbursed for a wage expense for which a tax credit has been granted, the tax credit will be recovered by means of this special tax.

In the case of qualified property for which a tax credit has been granted, the tax credit may be recovered by means of a special tax when the equipment acquired ceases, other than by reason of its loss or involuntary destruction through fire, theft, water damage or a major breakdown, to be used by the corporation primarily at a designated site before the end of the three-year period following the beginning of its use by this corporation. Nevertheless, a corporation is not bound to pay this special tax when the corporation ceases to use the property because it is obsolete. However, the property is deemed not to be obsolete at any time during this period if the corporation disposes of it at that time for an amount equal to or 10% higher than the initial cost of the property to the corporation.

In addition, Revenu Québec may at any time recover, by means of a special tax, any tax credit, tax holiday or other benefit overpaid to a corporation following the issuance of an eligibility certificate revoked by Investissement Québec after April 21, 2005.

On-site Visit

Investissement Québec reserves the right, in fulfilling its mandate to issue annual certificates, to visit the corporation's premises at any time during the period in which the corporation is eligible for one of the benefits granted under this measure. The corporation must undertake to give Investissement Québec representatives access to its premises.

Interim Financing of the Tax Credit

In some cases, Investissement Québec may offer interim financing of the tax credit.

Rate Schedule

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

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

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

April 2006