CDBS – INNOVATIVE PROJECT
Biotechnology Development Centres

Biotechnology development centres (CDB) aim to encourage groupings of businesses in designated sites (buildings), to stimulate the creation and growth of businesses carrying out activities involving innovation in biotechnology, to foster the emergence of scientific clusters to help maximize synergy and cooperation and to ensure that these businesses locate in a building adapted to their needs.

When it was introduced, the CDB fiscal measure was geared to corporations that wanted to carry out an innovative project in an emerging sector of the biotechnology field that features:

- Significant economic spin-offs for Québec; and
- Research and development content substantial enough to develop new expertise.

Various changes have been made to this fiscal measure since its introduction.

First, the tax benefits were reduced in the 2003-2004 Budget Speech (June 12, 2003). However, transitional measures were stipulated to enable corporations, in certain cases, to benefit from this measure in accordance with the initial terms and conditions.

Lastly, the 2004-2005 Budget Speech of March 30, 2004 eliminated the concept of innovative project and changed the benefits granted to corporations that qualified for the CDB fiscal measure as of that date. The information relating to the fiscal measure as it stands since March 30, 2004 is given in the CDB detailed fact sheet

This description contains only the information concerning corporations carrying out an innovative project in a CDB that filed an application for an eligibility certificate with Investissement Québec before March 31, 2004.

Designated Sites

Corporations that receive tax benefits connected to carrying out an innovative project in biotechnology must be established in one of the four sites designated as CDB located in the following cities:

- Laval
- Sherbrooke
- St-Hyacinthe
- Lévis

Nature of Tax and Transitional Measures

CORPORATION CARRYING OUT AN **INNOVATIVE PROJECT IN BIOTECHNOLOGY** THAT 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 (HSF).

- 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 short-term rental expenses in respect of eligible specialized facilities at each CDB.

To be considered, the application must be accompanied by the documentation needed to determine the corporation's eligibility.

In the event that control of a corporation receiving this level of assistance is acquired after June 11, 2003 but before March 31, 2004, the tax assistance it may obtain, as of the taxation year deemed to begin at the time of the acquisition of control, is the **tax assistance reduced by 25%** (as described below). However, the latter rule does not apply and the corporation continues to receive the full amount of tax assistance if control is acquired in any of the following situations:

- control of the corporation is acquired either by another corporation holding an eligibility certificate relating to the carrying out of an innovative project or by a corporation that already controls another corporation holding an eligibility certificate relating to the carrying out of an innovative project;

- control of the corporation was acquired after June 11, 2003, following the exercise of existing rights[1] or satisfaction of an obligation on this date;

- control of the corporation was acquired between June 11, 2003 and July 1, 2004 and the acquisition of control is the result of a sufficiently advanced transaction binding upon the parties at that date;

- control is acquired by a significant shareholder, i.e. a shareholder who held at least 25% (by votes and by value) of the shares of the corporation on June 11, 2003. Special rules apply in the case where control is acquired by a group of persons who together held at least 25% (by votes and by value) of the shares of the corporation on June 11, 2003.

Revenu Québec is responsible for determining whether there has been acquisition of control.

The various tax benefits are available for a corporation as of the date it begins its innovative project. This date is indicated by Investissement Québec on the eligibility certificate issued to it and cannot be earlier than March 30, 2001.

In addition to the benefits granted to the corporation, a foreign specialist it employs may claim, during a five-year period, a tax deduction relating to the employment income earned from the exempt corporation (Québec tax only). Such deduction is 100% or 75% of such income depending on various

[1] These rights are set forth in section 21.4.1 of the *Taxation Act* (Québec). For instance, this would hold true regarding an immediate, future, contingent, or absolute right to shares of a corporation's capital stock, or regarding the acquisition of such shares or the control of the voting rights attached to such shares.

criteria, in particular the time when the employment contract was signed. Details on this tax holiday for foreign specialists are provided in the detailed fact sheet entitled “Foreign Specialist”.

CORPORATION CARRYING OUT AN **INNOVATIVE PROJECT IN BIOTECHNOLOGY** THAT SUBMITTED A WRITTEN APPLICATION FOR AN ELIGIBILITY CERTIFICATE TO INVESTISSEMENT QUÉBEC **AFTER JUNE 11, 2003 BUT BEFORE MARCH 31, 2004** OR CONTROL OF WHICH WAS ACQUIRED DURING SUCH PERIOD;

This corporation is 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 his employment income earned from the corporation. Details on this tax holiday are found in the “Foreign Specialist” fact sheet.

CORPORATION CARRYING OUT **INNOVATION ACTIVITIES IN BIOTECHNOLOGY** THAT SUBMITTED ITS WRITTEN APPLICATION FOR AN ELIGIBILITY CERTIFICATE TO INVESTISSEMENT QUÉBEC AFTER MARCH 30, 2004 OR CONTROL OF WHICH WAS ACQUIRED AFTER SUCH DATE;

The concept of "innovative project" was eliminated in the 2004-2005 Budget Speech (March 30, 2004). Accordingly, a corporation that files an application for an eligibility certificate for the CDB measure after March 30, 2004 must show that it carries out biotechnology innovation activities to be eligible for the CDB measure. However, it will not have to satisfy the various conditions relating to the concept of “innovative project”.

Such a corporation will receive tax assistance as changed by the 2004-2005 Budget Speech. Details are provided in the “CDB” fact sheet.

Exempt Corporation

For the purposes of the CDB tax measure (innovative project), an “exempt corporation” is a corporation that holds a certificate issued by Investissement Québec confirming that it operates or may operate a business that is an innovative project in a CDB.

Among qualification criteria considered by Investissement Québec for an exempt corporation are the following:

- The corporation must have filed an application for an eligibility certificate for this fiscal measure before March 30, 2004;
- It must submit a project in an emerging sector of biotechnology.
- It must agree to develop new expertise in its field of activity. To this end, it must submit an “innovative project”.
- It must generally be a new corporation that has never previously operated a business or whose only business is to carry out the innovative project. In this respect, certain conditions were streamlined in the 2003-2004 Budget. Therefore, earning income on its surplus cash would not disqualify a corporation that is carrying out an innovative project.
- It must agree to carry out all or almost all of its activities in the CDB.

- It must agree to devote a major part of its activities to the research and development of new products.

- Its “innovative project” activities must generate significant economic spin-offs for Québec.

In addition to these requirements, the *Taxation Act* contains other conditions that must be met by the corporation. A corporation is an “exempt corporation” for a taxation year if it fulfils the following conditions:

- It is not the result of the amalgamation or merger or the unification of several corporations.
- The year wholly or in part comprises the corporation’s eligibility period.
- It has included in its income tax return a copy of the certificate issued by Investissement Québec.

At least, some corporations do not qualify as an “exempt corporation.” Among these are corporations that, in a given taxation year:

- Are exempt from tax;
- Are a Crown corporation or a wholly controlled subsidiary of such a corporation.

Innovative Project

Generally, the innovative project must:

- Belong to a biotechnology sector segment, such as human health, animal or plant agri-biotechnology, the environment, human or animal nutrition;

- Be in the start-up or development phase. In the case where an innovative project is in progress, it must not have gone beyond the stage of advancement that generates an income when the eligibility application is filed with Investissement Québec. In this regard, the streamlining announced in the 2003-2004 Budget Speech stipulates that the income earned by the corporation on its excess cash will not disqualify the innovative project in the case where such income is incidental to the carrying out of the innovative project;

- Have as its purpose the discovery of a substance, invention, improvement or development of a product, compound or process offering a competitive advantage for Québec;

- Require specialized skills to carry out research, development or enhancement activities in a scientific or technological discipline whose development in Québec is considered strategic.

Investissement Québec reserves the right, subject to authorization by the corporation, to seek an outside opinion in order to ascertain the innovative nature of the project and its technical and commercial viability.

Eligible Employee and Tax Credit on Eligible Wages and Salary

Pursuant to the *Taxation Act* an “eligible employee” of a corporation for part or all of a taxation year is an individual in respect of whom Investissement Québec has issued a certificate to the corporation for the year confirming that the employee is eligible for the period indicated.

To determine employee eligibility, the following criteria are taken into consideration:

- The employee must occupy a full-time position and work a minimum of 26 hours per week for a minimum employment period of 40 weeks.

- The position held must enable the employee to acquire specialized skills in an emerging sector.

- The employee must devote all or almost all (90% and more) of his or her time to carrying out the innovative project.

- The employee must perform his or her duties primarily (more than 50%) in the CDB or in an eligible specialized installation specifically designated regarding such CDB.

  There is, however, an exception to this condition when an otherwise “eligible” employee receives professional retraining at the request of his employer, even outside the CDB. In this instance, the employee is deemed to comply with the condition respecting presence in the CDB for the duration of such training, provided that he or she receives his or her usual remuneration during the training period.

Furthermore, Investissement Québec may consider an employee to be eligible for the tax credit during a temporary absence from work on reasonable grounds, such as maternity or sick leave, if the employee receives remuneration from his or her employer during this period.

Duties that are not directly involved in the processes of the corporation’s innovative project are excluded. For example, the following are excluded:

- Publicists, telemarketing representatives, and marketing, sales, and communications specialists;

- Administrative services and clerical support such as accounting, collection, reception services, and human resources;

- Corporate, legal, or financial services, senior management or support personnel.

The amount of the tax credit is equal to 40% or 30%, as needed, of the eligible wages or salary paid to an eligible employee (a tax credit of up to $15 000 or $11 250 annually per employee).

Period of Eligibility for the Tax Credit on Wages and Salary

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 innovative project, as indicated on the eligibility attestation issued to the corporation. However, the latter may not be earlier than March 30, 2001.

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

Eligible Property (Specialized Equipment) and Tax Credit on Costs of Acquisition or Leasing

To determine the eligibility of property for the tax credit, the following criteria are considered, among others:

- The property must have been acquired or leased by the corporation during the first three years of eligibility;

- The property must be new at the time of its acquisition or lease by the corporation;

- It must be depreciable for the purposes of the *Taxation Act*. It must be tangible property (except for a specialized software application or system software);

- It must be used entirely or almost entirely (90% or more) in the course of carrying out the innovative project by eligible employees within a reasonable time of its acquisition or rental;

- The property acquired must be used mainly (more than 50% of the time) in the CDB during a minimum three-year period;

- The property rented must be used mainly (more than 50% of the time) in the CDB for the rental period as noted on the eligibility certificate giving rise to the right to a tax credit.

Among the ineligible property are the following:

- Inventory, promotional material, property consumed in the realization of the innovative project, and intangible property;

- Furniture (for example: chairs, desks, cabinets) and equipment for general use (for example: photocopying and fax machines).

With regard to the eligible property, the corporation can take advantage of a tax credit of 40% or 30%, as the case may be, of the cost of acquisition or rental incurred by the corporation in relation to the property during the first five years of eligibility for the fiscal measure.

Specialized Facilities and Tax Credit on Eligible Rental Expenses

The operation of a business in the biotechnology sector usually requires the short-term use of certain specialized facilities (eligible facilities). A corporation that is carrying out an innovative project in a CDB can benefit from a refundable tax credit equal to 40% or 30%, as the case may be, 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 short-term 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 the University of 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.

Tax Holiday

To take advantage of a tax holiday for a particular taxation year, a corporation must hold a valid, unrevoked eligibility certificate confirming that it operates or may operate a business that is an innovative project in a CDB. This certificate is issued only once by Investissement Québec, after the initial application for an eligibility certificate has been filed. The holiday may be granted on 100% or 75% of the amounts otherwise eligible, depending on the situation that applies to the corporation.

The corporation must also be an exempt corporation as described above.

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

Under certain terms and conditions stipulated in the *Taxation Act*, the taxable amount of salaries or wages paid to eligible employees by an "exempt corporation" in a given taxation year must be reduced by the amount of all government or non-government assistance, and the amount of all benefits or advantages according to rules similar to those applicable to other refundable tax credits. The same applies to the cost of acquiring property and to rental costs.

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.

During the first three years of eligibility for a tax holiday, the “exempt corporation” is not eligible for any other tax credit provided for by the *Taxation Act*, with regard to any expenditures or costs incurred during this period, except, where applicable, for eligible salaries for the SR&ED tax credit. In this case, with respect to wages and salaries paid to employees who are eligible for both fiscal measures, the exempt corporation must choose to claim either the CDB innovative project tax credit or the SR&ED tax credit.

Subsequently, the general rules apply. Accordingly, an expenditure relating to an activity for a given period cannot give rise to more than one refundable tax credit. In this instance, the *Taxation Act* stipulates, in particular, that the total assistance received with regard to an employee may not exceed the lesser of $25 000, calculated on an annual basis, or 60% of the portion of the eligible employee’s wages or salary relating to carrying out eligible activities.

For more information on this aspect of computation of the tax credit, consult the general information of Revenu Québec.

Initial Eligibility

To be eligible for this measure, a corporation must have filed, **before March 31, 2004**, an application for an eligibility certificate with Investissement Québec using the appropriate form duly completed and accompanied by the required documentation.

Annual Attestations

At the time of filing its annual income tax return, and for each taxation year for which the “exempt corporation” wants to claim tax assistance, the 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.

- Obtain from Investissement Québec eligibility attestations for each of the employees and properties for which the tax credit will be claimed. The eligibility attestations 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 eighteen months from the last day of the taxation year for which the tax credit is claimed to produce its eligibility attestations. This may, however, require that the corporation amend its tax return.

Applications for annual eligibility certificates are made using forms available on Investissement Québec’s Web site. They can also be obtained from the Department of Fiscal Measures of Investissement Québec.

Maintenance of Certificates

The entitlement to and receipt of tax benefits are conditional upon the exempt corporation complying with its commitment to move into its premises in the designated site. Consequently, failure to occupy the space allocated in the designated site, for which the corporation received an eligibility certificate pertaining to the tax measure, could not only compromise the future issuing of annual certificates but also compel Investissement Québec to revoke the certificates issued in respect of previous years. Such revocations could trigger, in particular, 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 as stipulated in the *Taxation Act*.

Special Tax

The *Taxation Act* stipulates that an eligible corporation having benefited from a tax credit on wages and salaries and on the cost of purchasing or renting eligible property may be subject in a particular taxation year to a special tax under the specific circumstances provided for by the Act. For example, should an eligible corporation be reimbursed for a wage or salary expense in respect of which a tax credit was granted, or should Investissement Québec revoke the certificate, the tax credit may be recovered by a special tax provided for in the Taxation Act

In the case of eligible property in respect of which a tax credit has been granted, the tax credit may be recovered by means of this special tax when the property 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 period of three years 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 equipment due to obsolescence. 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 higher than 10% of the initial cost of that property to the corporation.

Moreover, Revenu Québec may, at any time, by means of a special tax, recover an excess amount of tax credit, tax holiday or other benefit granted to a corporation further to the issuing of an eligibility certificate revoked by Investissement Québec after April 21, 2005, except for the tax credit for eligible leasing expenses of an eligible facility that may be recovered by means of a special tax for any revocation of the eligibility certificate issued to the lessor of the eligible facility.

On-site Visit

Investissement Québec reserves the right to visit the facilities of an eligible corporation at any time during the period when the corporation is eligible for one of the benefits granted under the present fiscal measures and in accordance with its mandate to issue annual eligibility certificates. The corporation agrees to allow access to representatives of Investissement Québec and to provide any information that may be required during the visit.

Interim Tax Credit Financing

In certain cases, Investissement Québec may offer interim tax credit financing.

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 tax measure.

June 2005