Information Technology Development Centres[1]
(CDTIs)

Information technology development centres (CDTIs) were established to bring together corporations in designated buildings to encourage the creation of technological networks that will maximize synergy and cooperation while providing these corporations with facilities adapted to their needs.

The CDTI tax measure is intended for corporations that want to carry out an “innovative project” in an emerging information technology sector:

- That results in significant economic spin-offs for Québec; and
- That has research and development content substantial enough to develop new expertise.

This tax measure was eliminated in the 2003-2004 Budget Speech of June 12, 2003. However, transition provisions enable corporations, in certain cases, to benefit from this measure according to the initial rules.

Designated Sites

Corporations wishing to take advantage of tax benefits connected to carrying out an innovative project in the information technology sector must establish themselves in a designated CDTI or in a designated new economy centre (CNE).

Five CDTIs have been designated in the following cities:

- Laval
- Sherbrooke
- Gatineau
- Montréal
- Québec City

Buildings designated as CNEs can be found in most regions of Québec. A list is available on this Web site.

Transitional Measures and Nature of Tax Assistance

Maintenance of Assistance

Although the fiscal measures related to carrying out eligible activities in the information technology sector (“innovative projects”) in certain designated sites were eliminated in the 2003-2004 Budget, certain corporations may continue to benefit from these fiscal measures in accordance with the terms

[1] A second fiscal measure available in a designated CDTI site is intended for corporations that carry out innovative activities in information technology but that do not qualify as “innovative projects”. This measure was also eliminated in the 2003-2004 Budget. Information relating to it can be found in the detailed fact sheet on New Economy Centres (CNE).

and conditions that applied before June 12, 2003 provided that they satisfied either of the following requirements:

- The corporation obtained an eligibility certificate for this fiscal measure before June 12, 2003; or

- The corporation submitted its written application for an eligibility certificate before June 12, 2003 to Investissement Québec and, subsequent to examination, complied with the eligibility conditions. In this respect, to be considered, the application must be supported by the documents necessary for determining eligibility.

Despite the above, the corporation of which **control is acquired** after June 11, 2003, can no longer benefit from the CDTI tax measure as of the taxation year deemed to begin at the time of the acquisition of control. Nevertheless, the corporation will continue to be eligible in the following situations, despite the acquisition of control:

- Control of the corporation was acquired either by another exempt corporation or by a corporation that already controls another exempt corporation.

- Control of the corporation was acquired by a specified corporation[2]. However, in that case, the exempt corporation automatically becomes a specified corporation at the date on which control was acquired; for the purposes of determining its period of eligibility for this fiscal measure, the effective date of the eligibility attestation for the specified corporation that was previously an exempt corporation is deemed to be that of the eligibility attestation it held as an exempt corporation;

- Control was acquired after June 11, 2003, subsequent to the exercise of existing rights or satisfaction of an obligation on such date.

- Control of the eligible corporation was acquired between June 11, 2003 and July 1, 2004 and the acquisition of control was the result of a transaction that was sufficiently advanced on June 11, 2003 and was binding upon the parties on such 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 deciding whether the tax rules regarding an acquisition of control apply in a given situation.

An exempt corporation may take advantage of the following tax benefits:

- A five-year tax holiday regarding:
  - ⇒ income tax;
  - ⇒ the tax on capital; and
  - ⇒ the employer contribution to the Health Services Fund (HSF).

- A refundable tax credit of 40% for wages and salaries paid to eligible employees (maximum of $15,000 per employee).

[2] For the sake of brevity, the reference to acquisition of control of a corporation by another corporation covers all other types of acquisition of control covered by the exception rules, for example indirect acquisition of a corporation by the parent corporation.

- A refundable tax credit of 40% on the cost of purchasing or leasing eligible property (specialized equipment).

These benefits are available starting on the date the corporation begins its innovative project. This date is indicated by Investissement Québec on the eligibility certificate issued to the corporation and cannot predate March 26, 1997 for a corporation carrying out its innovative project in a CDTI, or March 10, 1999 for a corporation carrying out its innovative project in a CNE.

In addition to the benefits granted to a corporation, a foreign specialist employed by that corporation may, for a period of five years, benefit from a tax deduction in relation to income earned working for an exempt corporation (Québec income tax only). This tax holiday was also eliminated in the 2003-2004 Budget. Nevertheless, transitional measures have been stipulated. Details on this tax holiday and on transitional measures are found in the "Foreign Specialist" fact sheet.

End of Assistance

Other corporations, i.e., corporations that are not covered by the above conditions, are not eligible for the various tax benefits relating to carrying out an innovative project in a CDTI.

Exempt Corporation

For the purposes of this fiscal measure, 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 designated site.

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

- The corporation must have submitted an application for an eligibility certificate for this tax measure prior to June 12, 2003.
- The corporation must submit a project in an emerging sector of the information and communications technology industry, examples being multimedia, software, the information highway, telecommunications, and so on.
- The corporation must agree to develop new expertise in its field of activity. To this end, it must submit an "innovative project".
- The corporation must generally be a new corporation that has never previously operated a business and 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.
- The corporation must agree to carry out all or almost all of its activities in the designated site.
- 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.
- All or part of the year is included in the corporation’s eligibility period.
- It has included a copy of the certificate issued by Investissement Québec with its income tax return.

According to the *Taxation Act*, 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:

- Include a planned investigation carried out in order to acquire new technical or scientific knowledge. It may be applied research, focused on a well-defined purpose or a practical application, or pure research.

- Consist of transposition work involving research discoveries or other knowledge not yet commercially exploited.

More specifically, the project presented must be located in the information technology sector and must target the realization of a product, service or production or manufacturing process, which at the time of filing the application:

- Does not exist in Québec in the form described in the business plan;
- Has not generated revenues; and with regard to the streamlining announced in the 2003-2004 Budget, the corporation’s earning income on surplus cash will not disqualify the innovative project provided that this income is incidental in carrying out the innovative project.
- Requires specialized skills in the emerging sector.

From a scientific standpoint, it may entail:

- New scientific research;
- A scientific adaptation or enhancement.

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%) 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 designated site. 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 designated site. In this instance, the employee is deemed to comply with the condition respecting occupation in the designated site 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 tax assistance during a temporary absence from work on reasonable grounds, such as maternity or sick leave, where 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;

- Customer service, in particular through a technical support centre;

- Staff involved in installing technology on a client's premises or in seeking mandates.

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

Wage or Salary Tax Credit Eligibility Period

The eligibility period of the tax credit on eligible wages or salaries begins on the date the corporation begins its innovative project, as indicated on the eligibility certificate. The end of this period is determined according to the following rules:

- *The eligibility period began before 2001*

  The "exempt corporation" can take advantage of the income tax credit for eligible wages and salaries up to December 31, 2010.

- *The eligibility period began in 2001, 2002, or 2003*

  The "exempt corporation" can take advantage of the income tax credit for eligible wages and salaries for a period of ten years, starting on the date the corporation begins its innovative project as indicated on the eligibility certificate.

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);
- Il must be used entirely or almost entirely (90% or more) in 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 designated site during a minimum three-year period;
- The property rented must be used mainly (more than 50% of the time) in the designated site 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% 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 (eligibility period).

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 designated site. This certificate is issued only once by Investissement Québec, and this after the initial application for an eligibility certificate has been filed.

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 CDTI 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 on the website of Revenu Québec.

Initial and Annual Eligibility Certificates

Other than in specific exceptional situations, no new application has been accepted for this tax credit since June 12, 2003.

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 occupies its premises in the designated site or, if the premises are not yet available, prove that it is maintaining its lease and that it will occupy these premises in the designated site as soon as possible[3];

- Obtain from Investissement Québec eligibility certificates for each of the employees and property in respect of which tax credits will be claimed; the eligibility certificates must be enclosed with the corporation's income tax return filed with the MRQ for the taxation year in which the tax credit is claimed (taxation year of the expenditure).

  With regard to this last condition, the *Taxation Act* allows the corporation to file its eligibility certificates up to 18 months after the last taxation day for which the credit is claimed. This could, however, force the corporation to amend its tax return.

[3] Note that the activities carried out by an exempt 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.

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

Finally, to ensure the exempt 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.

Maintenance of eligibility

The Government of Québec has made it clear that entitlement to and receipt of tax benefits are conditional upon corporations honouring the commitments entered into under their lease in the designated building, as soon as the premises are made available by the lessor and ready for occupation.

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*.

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.

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 greater 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.

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.

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