Investissement Québec

# Tax Holiday for Manufacturing SMBs in Remote Resource Regions

## Review of Eligibility Criteria

This measure was implemented following the March 29, 2001[1] budget speech and is aimed at stimulating economic development in the regions of Quebec where employment situations are the most difficult.

In general, a corporation whose activities consist mainly in carrying on a manufacturing or processing business in a remote resource region may claim a 75% exemption with respect to:

- income tax
- tax on capital
- employer contributions to the Health Services Fund (HSF)

In this regard, the activities of a corporation consist mainly in carrying on a manufacturing or processing business when more than 50% of its payroll [2] or more than 50% of its assets are attributable to manufacturing or to processing.

To be eligible for the tax holiday, a corporation must only have establishments, within the meaning of the *Taxation Act*, in remote resource regions. However, a corporation that has an establishment outside such a region is deemed to satisfy this criterion if all or almost all its payroll, for a taxation year, is attributable to employees who work in its establishments located in remote resource regions.

A corporation benefits fully from the tax holiday for a taxation year (at the 75% rate) when its paid-up capital applicable for such taxation year, calculated on a consolidated basis, does not exceed $20 million, and from a partial tax holiday if such paid-up capital is between $20 and $30 million. No tax holiday is granted where the paid-up capital applicable to a taxation year, calculated on a consolidated basis, is $30 million or more.

We would like to remind you that Revenu Québec is responsible for deciding on compliance with the above-mentioned eligibility criteria for this tax holiday. For any questions regarding this matter, please call 1 800 567-4692.

[1] For additional information on the March 29, 2001 budget speech, see page 28 and onward.

[2] To determine whether the payroll attributable to carrying on a manufacturing or processing business represents more than 50% of a corporation's total payroll, only the first $125,000 of wages incurred regarding an employee, on an annual basis, is considered, both to calculate the payroll attributable to carrying on a manufacturing or processing business and to calculate the corporation's total payroll.

## Eligible Regions

Eligible regions consist of the territories in the following administrative regions and RCMs:

- Bas-Saint-Laurent
- Saguenay–Lac-St-Jean
- Abitibi-Témiscamingue
- Côte-Nord
- Nord-du-Québec
- Gaspésie–Îles-de-la-Madeleine
- Antoine-Labelle RCM
- Vallée-de-la-Gatineau RCM
- Pontiac RCM
- Mékinac RCM
- Agglomeration of La Tuque (including La Bostonnais and Lac-Édouard)

## Annual Eligibility Certificate

On June 26, 2007, the Ministère des Finances du Québec gave Investissement Québec the responsibility of issuing the annual eligibility certificate needed by manufacturing SMBs in remote resource regions to obtain the tax holiday.

More specifically, for any taxation year ending after December 31, 2007, a corporation must obtain an annual eligibility certificate from Investissement Québec regarding any taxation year for which it wants to claim a tax holiday.

This annual eligibility certificate establishes whether a transfer of activities has been made from an establishment located outside the remote resource regions to an establishment located in one of the resource regions. If so, it also establishes the reduction factor for the tax assistance applicable to such corporation and applicable to such transfer of activities to the remote resource regions.

Since a corporation's activities are generally carried out by its employees, particularly in the case of a manufacturing or processing business, employee payroll is the chief criterion taken into consideration by Investissement Québec to determine both whether a transfer of activities has been made to an establishment located in a remote resource region and the reduction factor applicable to the eligible corporation regarding a taxation year, as the case may be.

Accordingly, where a corporation is able to demonstrate, to Investissement Québec's satisfaction, that no part of its payroll for a given taxation year is attributable to a transfer of activities made after June 26, 2007, Investissement Québec will issue an eligibility certificate confirming that no reduction factor must be applied for such taxation year.

Where a transfer of activities is made after June 26, 2007, an eligibility certificate confirming that no reduction factor is applicable regarding a taxation year may also be issued by Investissement Québec if it is shown that all the activities thus transferred were previously carried out in an establishment located outside Québec, or in an establishment located in a remote resource region.

## Reduction Factor

Where a transfer of activities is made after June 26, 2007 and part of the transferred activities were previously carried out in an establishment located in Québec but outside a remote resource region, Investissement Québec will issue an eligibility certificate confirming the reduction factor for the tax holiday applicable to the corporation for a given taxation year.

This reduction factor is based mainly on the ratio between the payroll attributable to employees assigned to the activities transferred in an establishment in the remote resource region and the total payroll of such corporation for such given taxation year[3]. However, other factors may be taken into consideration when determining the applicable reduction factor.

In this regard, only the first $125,000 of wages incurred regarding an employee, on an annual basis, is considered, both to calculate the payroll attributable to the employees assigned to the activities transferred to an establishment in a remote resource region and to calculate the total payroll of the corporation.

For example, a corporation otherwise eligible for the tax holiday acquires, on July 1, 2007, a business carried on outside a remote resource region. To satisfy the requirement relating to the maintenance of establishments in remote resource regions, the corporation transfers, on August 1, 2007, all the activities in its establishment located in a remote resource region. The corporation's taxation year ends March 31. The payroll attributable to the employees assigned to the transferred activities, for the period from July 1, 2007 to March 31, 2008 is $500,000 and the total payroll of the corporation for its taxation year is $1,250,000.

Accordingly, the reduction factor for the tax holiday applicable to the corporation in such a case would be 40%[4] for its taxation year ending March 31, 2008. This factor, determined by Investissement Québec, will be shown on the eligibility certificate issued to the eligible corporation for this taxation year.

Investissement Québec may, in the course of setting or revising the reduction factor determined for a corporation, for a given taxation year, consult with the Ministère du Revenu, to ensure uniform treatment of transfers of activities. Such consultation helps adequately reflect a decision reached and applied by the Ministère du Revenu in this regard for the purposes of the other fiscal measures intended for the resource regions.

Investissement Québec may consider that a transfer of activities made after June 26, 2007 was made no later than that day where such transfer is no more than the finalization of a transfer that already bound the parties on such date and that, according to Investissement Québec, was sufficiently advanced no later than June 26, 2007. In such a case, Investissement Québec will issue a certificate confirming that no reduction factor is applicable regarding such transfer, provided it is completed no later than December 31, 2007.

## Other Details

In order to benefit from the tax holiday, for a taxation year, an eligible corporation must enclose with its tax return, for such taxation year, the original eligibility certificate issued by Investissement Québec. The form needed to obtain this annual eligibility certificate is available on the Investissement Québec's website or from its Department of Tax Measures.

Where a reduction factor is determined for an eligible corporation regarding a given taxation year, the tax holiday is reduced by such factor. For greater clarity, this reduction factor applies in addition to the other parameters currently stipulated.

For example, an eligible corporation whose eligibility certificate issued regarding a taxation year indicates a reduction factor of 40% may claim a tax holiday equal to 45% of its income from an eligible business, of the amount of its paid-up capital and of the wages paid or deemed paid by the corporation[5].

[3] For greater clarity, a transfer of activities made after June 26, 2007 is also considered in the calculation of a reduction factor even if it was made in a year prior to the one when the corporation is eligible for the tax holiday.
[4] $500,000 / $1,250,000 = 40%.
[5] 75% X (1 - 0.40) = 45%.

Since the need to obtain an annual eligibility certificate concerns fiscal years ended after December 31, 2007, when the corporation's taxation year includes December 31, 2007, the reduction factor applies in proportion to the number of days of such taxation year that follow that day and the total number of days of such taxation year, to establish a weighted rate of the tax holiday.

For instance, using figures of the preceding example where Investissement Québec indicates a reduction factor of 40%, thus reducing the percentage of the tax holiday to 45% as of January 1, 2008, this weighted average would be 67.54% if the corporation's taxation year ended on March 31, 2008[6]. In cases where the transfer of activities is made after June 26, 2007 in a fiscal year that includes December 31, 2007, this weighted average remains the same regardless of whether the transfer of activities is made before or after December 31, 2007.

Similarly, in the case where the paid-up capital of the corporation, applicable for a given taxation year, is greater than $20 million but less than $30 million, the income from such eligible business, the paid-up capital and the wages paid or deemed paid for which a deduction can be claimed will continue to be reduced on a linear basis.

For example, if a corporation's consolidated paid-up capital is $25 million, a 50% reduction (1 - ($25 M - $20 M / $10 M) = 50%) will have to be added to the exemption rate otherwise determined, following application of the reduction factor. We must therefore apply, to the 67.54% rate determined above, the reduction calculated based on the paid-up capital of 50%[7]. Following this example, the corporation will be able to claim an exemption of 33.77% with respect to income tax, tax on capital and employer contributions to the Health Services Fund (HSF).

## Eligibility Period

A corporation may benefit from the tax holiday until December 31, 2010.

## On-site Visit

Investissement Québec reserves the right to visit the eligible corporation's facilities at any time during the eligibility period. Accordingly, the corporation must give access to Investissement Québec's representatives and provide the information required during the visit.

## Rate Schedule

Since September 1, 2004, Investissement Québec has charged fees for the analysis of any application for an eligibility certificate relating to the tax measures it administers. For more information, please see the rate schedule.

[6] (75% X (275/366)) + (45% X (91/366)) = 67.54%.
[7] 67.54% x (1 - 50%) = 33.77%.

*The statements in this detailed fact sheet constitute a summary of the tax 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.*

*December 2007*