

New Economy Centre (CNE)¹

The concept of the new economy centres (CNE) is designed to stimulate, through tax incentives, the location and development of new economy companies in designated buildings in many regions of Québec.

The purpose of grouping companies is to encourage the formation and growth of new economy companies and foster the emergence of technology centres to help promote synergy and cooperation.

In general, the tax assistance granted through this measure consists of a refundable tax credit of 40% calculated on the salary paid to a specified employee. In addition, a tax holiday can be granted to a foreign specialist working for a corporation benefiting from this measure. Details on this tax holiday are provided in the "Foreign Specialist" fact sheet.

The CNE 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. Such information is shown within borders.

Designated CNE Sites

Corporations that want to receive the tax benefits must be located in a CNE-designated site (building).

CNEs are located in almost every region of Québec. A list of these sites is available on this Web site.

Specified Corporation

The expression "specified corporation", for a taxation year, means a corporation that holds, for such year, an attestation from Investissement Québec confirming that it carries out specified activities (i.e. other than an innovative project) in a CNE.

According to the *Taxation Act*, some corporations cannot qualify as a "specified corporation." These include corporations that, in a given taxation year:

- Are exempt from tax;
- Are Crown corporations or subsidiaries wholly controlled by such a corporation.

¹Under certain conditions, a corporation that carries out an "innovative project" in a CNE may claim significant tax benefits tied to the CDTI tax measure. For further information on this last tax measure, please consult the detailed fact sheet on information technology development centres (CDTIs).

The CNE measure was eliminated in the 2003-2004 Budget. However, certain corporations may continue to benefit from this measure in accordance with the terms and conditions that applied before June 12, 2003 provided that they have satisfied either of the following requirements:

- The corporation must have obtained an eligibility certificate for this fiscal measure before June 12, 2003; or
- The corporation must have submitted its written application for an eligibility certificate before June 12, 2003 to Investissement Québec and must comply with the eligibility conditions. To be reviewed, such an application must be accompanied by the supporting documents required to determine the corporation's eligibility.

Despite the above, the corporation of which **control is acquired** after June 11, 2003, can no longer benefit from the CNE 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 a specified corporation is acquired by another specified corporation such as a corporation eligible for the CNNTQ, CNE or CMM measures or by a corporation that already controls another specified corporation;
- Control of the specified corporation was acquired by an "exempt corporation"² that did not choose to retain its status as an "exempt corporation";
- Control of the specified corporation was acquired after June 11, 2003 following the exercise of existing rights or satisfaction of an obligation on this date.
- Control of the specified corporation was acquired between June 11, 2003 and July 1, 2004 if the acquisition of control is the result of a transaction sufficiently advanced by June 11, 2003 binding upon the parties at this date.
- Control of the specified corporation 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.

On an exceptional basis, a corporation created as the result of **corporate restructuring** may obtain an eligibility certificate for this fiscal measure even if the eligibility application was submitted after June 11, 2003, provided that one of the corporations involved in the restructuring is a specified corporation. The corporate restructurings covered by this exception are as follows:

- Amalgamation or merger, provided that control of the specified corporation is not acquired during restructuring.
- Liquidation or winding-up by the parent company of a specified corporation that is a wholly owned subsidiary.
- Corporate restructuring between two corporations that are part of the same corporate group, but only if ownership of the two corporations wanting to transfer specified activities are held in the same proportions by one person or by each member of a group of persons. However, where such corporate restructuring means that a specified corporation transfers or assigns **part** of its specified activities to another corporation that is part of the

² An "exempt corporation" is a corporation holding an attestation from Investissement Québec to the effect that it operates or may operate a business constituting an innovative project at a designated site.

same corporate group, only one corporation may hold an eligibility attestation in connection with this fiscal measure;

- Corporate restructuring completed before June 12, 2003; and
- Corporate restructuring completed and finalized between June 11, 2003 and July 1, 2004, provided that the corporate restructuring was sufficiently advanced before June 11, 2003 and was binding on the parties on that date.

In all cases, Revenu Québec is responsible for determining whether there has been acquisition of control.

Specified Activity

Essentially, the tax assistance is intended for corporations that carry out an expansion project that creates jobs. "Specified activities" are innovation activities in the following sectors:

- Information and communications technologies, in particular:
 - data processing, software or software packages;
 - telecommunications;
 - multimedia;
 - consulting services.
- Production technologies, in particular:
 - design and engineering;
 - assembly-line manufacturing;
 - automatic handling of materials;
 - manufacturing information systems.
- Biotechnologies, in particular
 - human and animal health;
 - agriculture, bio-food and forestry;
 - environment.
- Materials technology, in particular:
 - chemical materials and metallic materials;
 - polymers and composite materials.
- Services of a scientific or technological nature, in particular:
 - engineering services;
 - testing laboratories;
 - scientific and technical consulting services;
 - computer systems design.

Activities not Recognized as a "Specified Activity"

Some activities cannot qualify for this tax credit. **Among others**, these include activities relating to market analysis and development, credit arrangements, preparation of a business plan, financing for capital investments, advertising, promotion, manufacturing, processing or commercialization.

For example, the following activities are excluded because they make a less significant contribution to the development of the new economy and do not generate a sufficiently high level of value added:

- repair and maintenance of electronic or computer equipment;
- manufacturing of non-electronic machines, instruments, components, parts, material or equipment;

- assembly of electronic and non-electronic parts or components (e.g.: assembly of television receivers, computer monitors, calculators or cash registers);
- audio and/or video signal distribution services via broadcasting, telephony, cable distribution, satellites or other cellular networks;
- distribution services (e.g.: newspaper chains, periodicals, video clubs and television stations);
- the operation of satellites, studios or television or radio networks.
- the operation of electromagnetic telecommunications services and telephone services (e.g.: call centres and telephone networks);
- print media, non-digital film (including post-production) and non-digital audiovisual production (including television programs);
- primary suppliers (e.g.: museums, libraries, databases, etc.).
- teleconferencing services;
- Internet service providers;
- book or record publishing (e.g.: commercialization, promotion and financing of applications).

This list is non-exhaustive and is given for illustrative purposes only.

Specified Employee

Essentially, a “specified employee” means a person who, in carrying out his duties for the position to which he is assigned, undertakes, supervises or directly supports work relating to the execution of a “specified activity” of the corporation.

An employee whose duties are not directly involved in the specified activities of the corporation is not eligible.

For example, the following duties and tasks are excluded:

- advertising, telemarketing representatives, and marketing, commercialization and communications, market research or public relations specialists (e.g.: services primarily involved with the sales department);
- administrative services and clerical support services (e.g.: accounting, account collection, reception services and human resources, etc.);
- corporate services (e.g.: senior management, executive personnel, legal affairs, finance, etc.);
- customer services, in particular a customer support centre;
- staff involved in installing the technology at the client's premises or in market development.

In addition, the employee must hold a full-time job, with a minimum of 26 hours a week for an expected minimum of 40 weeks.

Lastly, such employee must be present in the establishment of his employer located in the CNE for all or almost all (90% or more) of his hours of work with such employer. However, there are exceptions to this condition. First, if an employee takes supplementary training at the request of his employer, even outside the CNE, he is deemed to satisfy the condition of occupation in the CNE for the training period, provided he receives his usual remuneration during such period.

The second exception applies when part of the activities must be carried out in a research centre with specialized equipment or, if applicable, in a natural setting, and Investissement Québec considers that it is not reasonable to demand that tasks relating to such activities be carried out within the establishment of the employer located in the CNE. The employee will be deemed, in carrying out such tasks, to carry out his duties within the establishment of his employer located in the CNE.

Note that the second exception does not apply regarding employees who must carry out a significant part of their duties on the customers' premises even if such work is carried out within a designated site. In the same way, it does not apply regarding duties carried out by an employee of a corporation outside a designated building, when they are carried out in another establishment of the corporation or in an establishment of a person with whom the corporation is not at arm's length.

Specified Salary and Tax Credit on Salaries

The tax credit of 40% on salaries is established on the basis of the “specified salary” for each employee for whom an annual attestation is issued by Investissement Québec.

Briefly, the expression “specified salary” means, for the calculation of the tax credit for a taxation year, the salary incurred by the corporation in such year regarding an employee for the time he allocated to tasks directly related to the “specified activities” of his employer. The salary considered for calculating the credit is subject to an annual maximum of \$37 500.

Accordingly, when, during a taxation year, all the tasks carried out by an employee with a specified corporation do not satisfy the overall eligibility criteria of the program, the corporation may still receive an eligibility attestation for such employee for the portion of the tasks that satisfy the eligibility criteria.

For instance, an employee who, during a taxation year, carries out both management and development tasks may be eligible for the tasks directly related to development. Assuming that the portion of time allocated to the latter tasks corresponds to 50% of the employee's work time, the specified salary incurred by the corporation for him is, for the purposes of the calculation of the tax credit, equal to 50% of the lesser of the salary actually paid to him or \$37 500 (considering that the employee qualifies for a taxation year of 365 days).

In view of the cap on eligible salary mentioned above, the amount of tax assistance relating to salary cannot exceed \$15 000 per “specified employee” on an annual basis. Where the employee's number of days of eligibility is less than 365 days per year, this cap must also be proportioned to the number of days of eligibility over 365 and of the proportion of time devoted to specified activities of the corporation.

Period of Eligibility for the Tax Credit

In general, the eligibility period of the corporation for which the specified salaries give rise to the tax credit depends on the calendar year in which the lease for premises in the CNE was concluded.

- *Leases concluded before January 1, 2001:*
 - ⇒ A corporation that holds an attestation as a “specified corporation” and carries out specified activities in the CNE following the conclusion of a lease before January 1, 2001, can receive a tax credit regarding specified salaries incurred no later than December 31, 2010.
- *Leases concluded in 2001, 2002 or 2003:*
 - ⇒ A corporation that holds an attestation as a “specified corporation” and carries out specified activities in the CNE following the conclusion of a lease in 2001, 2002 or 2003, can claim a tax credit regarding specified salaries for a period of ten years beginning on the date the lease is concluded.

Certain exceptions are allowed for determining the effective date of the eligibility attestation issued to a specified corporation. One such exception is when the corporation occupies the building at the time of its designation as a designated building or when events beyond the control of the corporation significantly delay the conclusion of a lease.

Furthermore, the date used for establishing the end of the tax credit eligibility period for salaries may be different than the date of conclusion of the lease in certain circumstances. Such may be the case, in particular, when the corporation is associated with another specified corporation at the time of conclusion of the lease.

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

According to the usual rules applicable to refundable tax credits, the amount of salaries must be reduced by the amount of any government assistance, any non-government assistance and any gain or advantage attributable to such salaries.

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.

Furthermore, as of April 22, 2005, reimbursement of assistance, a benefit or another amount that previously served to reduce the amount of salaries for the purpose of calculating the tax credit awarded to the corporation will be added to the amount of the salaries for application of the tax credit to which that taxpayer will be entitled.

An expenditure relating to an activity for a given period cannot give rise to more than one refundable tax credit. In addition, the *Taxation Act* stipulates that the total assistance received for an employee may not exceed the lesser of \$25 000, calculated on an annual basis, or 60% of the portion of the salary of the eligible employee relating to the carrying out of a specified activity.

For more information on this aspect of the calculation of the tax credit, refer to the general information service of Revenu Québec.

Eligibility Application

To be eligible for this measure, a corporation must have filed, **prior to June 12, 2003**, an application for an eligibility certificate with Investissement Québec using the appropriate form duly completed and accompanied by the required documentation.

Annual Certificates

When it files its tax return and for each taxation year for which it wishes to claim the tax assistance, a “specified corporation” must:

- Prove to Investissement Québec that it occupies the CNE or, if the premises are not yet available for occupancy, show that it maintains its lease for premises in the designated building³.
- Obtain from Investissement Québec the eligibility attestations regarding its activities and the employees for whom the credit will be claimed. These annual attestations and the one concerning “specified corporation” status must then be filed with Revenu Québec within twelve months of the statutory deadline for filing the corporation’s tax return. The tax credits are claimed using the form prescribed by Revenu Québec.

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 specified 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)

³ 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.

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.

Maintaining Eligibility

The Québec government has already indicated that entitlement to and reception of tax benefits is conditional, in particular, on corporations satisfying their undertakings given under their leases for premises in the designated building as soon as the premises are delivered by the landlord and are ready for occupancy.

Accordingly, failure to occupy the stipulated premises, for which the corporation received an attestation of eligibility for the fiscal measure, may not only compromise issuing of annual attestations in the future, but also cause Investissement Québec to revoke attestations issued for prior years. Such revocations could trigger a mechanism for recapturing tax credits claimed for prior years in accordance with the *Taxation Act*.

On-site Visit

Investissement Québec reserves the right, at any time during the period of validity of the “specified corporation” attestation and in the course of carrying out its mandate to issue annual attestations, to visit the corporation’s facilities. Accordingly, the corporation must to give access to Investissement Québec's representatives and provide the information required during the visit.

Administrative Responsibilities

The fiscal measure is administered jointly by Investissement Québec and Revenu Québec.

- *Responsibilities of Investissement Québec*

Responsibility for issuing the various eligibility attestations and ensuring compliance with eligibility criteria lies exclusively with Investissement Québec. The fact that Investissement Québec has issued an eligibility attestation is not an absolute guarantee that the corporation may benefit from the fiscal measure concerned by such attestation. The eligibility attestation simply confirms that the administrative criteria that are the responsibility of Investissement Québec have been satisfied. The other eligibility criteria stipulated in the *Taxation Act*, which fall under the administrative responsibility of the ministère du Revenu, must also be satisfied before the corporation can claim the benefits of the fiscal measure concerned.

For greater clarity, in every case, Investissement Québec considers an application relating to this fiscal measure to be complete if it is signed, if all the sections of the form are duly completed and if it is accompanied by all the documents required by the form including, if applicable, power of attorney of the corporation in the case of representation.

- *Responsibilities of Revenu Québec*

Revenu Québec is responsible for administering the *Taxation Act* and ensuring compliance with the provisions of the Act. If an eligibility criterion relating to a fiscal measure is indicated in the *Taxation Act*, Revenu Québec ensures that the criterion is satisfied.

Among other things, the legislation stipulates that the corporation must obtain an eligibility attestation issued by Investissement Québec. In this specific case, the responsibility of Revenu Québec regarding an eligibility attestation is limited to checking that the corporation actually has the attestation. It is not responsible for checking the items underlying the issuing of such attestation by Investissement Québec.

However, Revenu Québec may provide Investissement Québec with information to ensure the integrity of a fiscal measure.

As of June 12, 2003, Revenu Québec must rule on the entitlement and, if need be, the expiry of such entitlement to the tax credit compared to the rules on the acquisition of control of the specified corporation.

Special Tax

If a wage expenditure for which a tax credit has been granted is refunded to the eligible corporation, the tax credit may be recaptured by means of a special tax stipulated by the *Taxation Act*.

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

Interim Financing of the Refundable Tax Credit

Investissement Québec may offer, in certain cases, a loan guarantee to ensure 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 tax measure.

April 2009