

CENTRE NATIONAL DES NOUVELLES TECHNOLOGIES DE QUÉBEC (CNNTQ)¹

The Centre national des nouvelles technologies de Québec (CNNTQ) brings together information technology and multimedia businesses in a delimited downtown area in Québec City. The CNNTQ tax measure is intended to support and foster the development of the arts related to information technologies, communications and multimedia.

Generally speaking, the tax assistance granted under this measure takes the form of a refundable tax credit of 40% computed from the wages and salary paid to a specified employee. In addition, a foreign specialist employed by a corporation eligible for this tax measure may take advantage of a five-year tax holiday, which is explained in greater detail in the Foreign specialist detailed fact sheet.

The CNNTQ 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.

Site Boundaries and Designation

Corporations wishing to take advantage of the CNNTQ tax benefit must set up operations in a building within the boundaries of the CNNTQ. The boundaries are as follows:

- rue Dorchester, starting on rue Saint-Joseph Est to rue Saint-Vallier Est;
- rue Saint-Vallier Est, starting on rue Dorchester to rue de la Couronne;
- rue de la Couronne, starting on rue Saint-Vallier Est to boulevard Charest Est;
- boulevard Charest Est, starting on rue de la Couronne to boulevard Jean-Lesage;
- boulevard Jean-Lesage, starting on boulevard Charest Est to rue de la Gare-du-Palais;
- rue de la Gare-du-Palais, starting on boulevard Jean-Lesage to rue du Roi;
- rue du Roi, starting on rue de la Gare-du-Palais to rue Saint-Dominique;
- rue Saint-Dominique, starting on rue du Roi to rue Saint-François Est;
- rue Saint-François Est, starting on rue Saint-Dominique to rue de la Chapelle;
- rue de la Chapelle, starting on rue Saint-François Est to rue Saint-Joseph Est;
- rue Saint-Joseph Est, starting on rue de la Chapelle to rue Dorchester;
- rue Saint-Joseph Est, rue de l'Église, rue Saint-François Est and rue de la Chapelle.

The Québec City Information Technology Development Centre (CDTI), located at 390 rue Saint-Vallier Est, is also included in the CNNTQ.

¹ Under certain conditions, a corporation that carries out an “innovative project” in a building located within the boundaries of the CNNTQ may claim significant tax benefits tied to the CDTI tax measure. For further information on the CDTI tax credit, please consult the detailed fact sheet entitled Information technology development centres (CDTIs).

Transitional Measures and Nature of Tax Assistance

Maintenance of Assistance

The CNNTQ 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 CNNTQ 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 and 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 the CNNTQ 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.

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.

- 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 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.

A corporation that complies with the above conditions can be granted a refundable tax credit of 40% computed on the salaries or wages paid to specified employees (maximum of \$15,000 per employee) from the date indicated on the eligibility certificate issued to it by Investissement Québec.

In addition to these benefits, a foreign specialist employed by the specified corporation may be granted a five-year tax holiday on employment income (Québec tax only). It should be noted that while the tax holiday was eliminated in the 2003-2004 Budget, provisional measures have been implemented. The details for the tax holiday for foreign specialists are contained in the detailed fact sheet entitled Foreign specialist.

End of Assistance

Other corporations, i.e., corporations that do not comply with the above conditions, are not eligible for the CNNTQ measure.

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 CNNTQ.

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.

Specified Activities

Essentially, the tax assistance is intended for corporations that carry out an expansion project that creates jobs. “Specified activities” are innovation activities in the information and communications technology sectors, in particular:

- Data processing, software and software packages
- Telecommunications
- Multimedia
- Consulting services

Such corporations are concentrated, by and large, in the following sectors:

- Data processing, software or software packages: instrumentation, software production, data-processing services and professional services, security and identification systems, virtual reality, software engineering and electronic imaging.
- Voice recognition and language processing: home automation, artificial intelligence and interfaces.
- Consulting services: systems development and integration, computer program management and software design.
- Allied services in this sector: Internet service providers, Web-based businesses, office automation, data banks, and geomatics.
- Telecommunications: data communication, telephony and cablecasting equipment, telecommunications services, fibre-optic or satellite communications, microcircuits, hybrid circuits, and electronic components.
- Multimedia: development of electronic services, content or applications design, etc.

Every year, the corporation must obtain a certificate from Investissement Québec confirming that it carried out “specified activities” during the year.

Activities not Recognized as “Specified Activities”

Generally speaking, the following activities do not qualify as “specified activities” for the purposes of this measure because they contribute less significantly to the development of the new economy and do not produce sufficient added value:

- The repair, maintenance or reconditioning of electronic or computer equipment.
- The manufacture of machines, instruments, components, parts, material and non-electronic equipment.
- The assembly of electronic or non-electronic parts or components, (e.g. the assembly of television sets, computer screens, calculators or cash registers).
- Television broadcasting of sound or visual signals, telephony, cablecasting, satellites or other cellular networks.
- Distribution services (e.g., newspaper chains, periodicals, video clubs and television stations).
- The operation of satellites, or radio or television broadcasting networks or studios.
- Telephone services and electromagnetic telecommunications services (e.g., call centres and telephone networks).
- The print media, non-digital cinematography (including post-production) and non-digital audiovisual production (including television programs).
- Primary suppliers (e.g., museums, libraries, data banks, etc.).
- Teleconference services.
- Internet service providers.

AND

- Publishing and the production of sound recordings: (e.g., the marketing, promotion and financing of applications).

The above list of activities is intended as a guide and is not comprehensive.

Specified Employee

A “specified employee” refers to a person who, in carrying out his work-related duties, performs tasks that consist in directly engaging in, supervising or supporting work related to the execution of a “specified activity” of the corporation.

For example, employees assigned to the following tasks may be eligible:

- Tasks related to the collection, storage, processing and transmission of multimedia or other information.
- Tasks related to activities focused on innovation, especially pre-production, production, adaptation of technology and new by-products development.
- Tasks related to the creation of the basic content of multimedia productions (e.g., authors, composers, directors, graphic artists, etc.).

Employees whose duties are not directly related to the corporation's specified activities are ineligible.

For example, the following are excluded:

- Publicists, telemarketing representatives and marketing, communications, market research or public relations specialists (e.g., services mainly associated with the sales department);
- Administrative services and clerical support (e.g., accounting, comptroller, collection, reception services, human resources, etc.);
- Corporate services (e.g., senior management, supervisory staff, legal and, financial services, etc.);
- Customer service, in particular through a technical support centre;
- Staff involved in implementing technology on a client's premises or in seeking mandates.

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

Lastly, such employee must be present in the establishment of his employer located in the CNNTQ for all or almost all (90% or more) of his hours of work with such employer. However, there are exceptions to this condition. First, an employee who has undertaken professional retraining at his employer's request, even outside the CNNTQ, will be deemed to comply with the condition respecting occupation in the CNNTQ for the period of the training provided that he or she receives his or her usual remuneration during the training period.

The second exception applies when some of the activities must be carried out in a research centre with specialized equipment or, where relevant, in a natural setting, and Investissement Québec does not deem it reasonable to require that the tasks associated with these activities be carried out in the employer's establishment located within the CNNTQ. In this instance as well, the employee will be deemed to perform his or her duties in the employer's establishment located within the CNNTQ when carrying out such tasks.

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. Similarly, the exception does not apply to duties carried out by an employee of a corporation outside the designated building when they are performed in another establishment of the corporation or in an establishment of a person with which the corporation deals at non-arm's length.

Furthermore, Investissement Québec may consider an employee to be eligible for the credit 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.

Lastly, in order to claim tax assistance associated with wages or salaries, the corporation must obtain an annual certificate from Investissement Québec for its specified employees.

Specified Salaries and Tax Credit on Salaries

The tax credit on salaries is established according to the "specified salaries" for each employee for whom Investissement Québec has issued an annual certificate.

Briefly, for the purposes of this measure, the term “specified salaries” means the salary committed by the corporation in that year to an employee that is attributable to the time the employee has devoted to tasks directly related to his or her employer’s “specified activities.” The salary considered for calculating the credit is subject to an annual maximum of \$37 500.

When, during a given taxation year, all of the tasks performed by an employee for a specified corporation do not, as a whole, satisfy the program’s eligibility criteria, the corporation may nevertheless receive an eligibility certificate covering this employee in respect of 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 development corresponds to 50% of the employee’s time, the specified salary incurred by the corporation for him or her is, for the purposes of the calculation of the tax credit, equal to 50% of the lesser of the salary actually paid 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.

Tax Credit Eligibility Period

Generally speaking, the eligibility period during which salaries and wages entitle the corporation to the tax credit depends on the calendar year in which the lease was concluded to occupy space in one of the CNNTQ buildings.

- Leases concluded prior to January 1, 2001
⇒ The “specified corporation” may claim a tax credit for specified wages committed by December 31, 2010 at the latest.
- Leases concluded in 2001, 2002 or 2003
⇒ The “specified corporation” may claim a tax credit for specified wages committed for a period of 10 years, usually beginning on the date on which the lease was concluded.

Certain exceptions apply to determine the date of coming into force of the eligibility certificate issued to a specified corporation. This is true, for example, when events beyond the corporation’s control significantly delay the conclusion of the lease.

Moreover, the date adopted to establish the end of the eligibility period for the tax credit on salaries and wages may differ from the date on which the lease was concluded under certain circumstances. Such may be the case, in particular, when the corporation is associated with another specified corporation when the lease is concluded.

Lastly, a specified corporation whose initial eligibility attestation was issued by Investissement Québec under the conditions stipulated in the 2003-2004 Budget Speech of June 12, 2003, that continues, in a designated site, to carry out specified activities, which were previously carried out by another specified corporation, may continue to benefit from these fiscal measures only for the remainder of the period applicable to such other specified corporation.

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 all the 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 specified 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.

Initial Qualification

Apart from the exceptions discussed above, no new application has been accepted for this measure since June 2003.

Annual Certificates

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

- Prove to Investissement Québec that it occupies the premises located within the CNNTQ or, as the case may be, if the premises are not yet available, prove that it is maintaining its lease and that it will occupy these premises as soon as possible;
- Obtain from Investissement Québec eligibility certificates for each of the activities and employees for which the tax credit will be claimed. The eligibility certificates must be enclosed with the corporation's tax return filed with Revenu Québec for the taxation year for which the 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.

Applications for annual eligibility certificates are filed using the forms available on the Investissement Québec website. 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) 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 entitlement to and receipt of tax benefits is conditional upon specified corporations complying with their commitment to move into premises in a designated site as soon as the space is available. Consequently, failure to occupy the space allocated in the designated site and in respect of 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 a recovery mechanism in respect of the tax credits claimed for previous years, as stipulated in the *Taxation Act*.

On-site Visit

In accordance with its mandate to issue annual eligibility certificates, Investissement Québec reserves the right to visit the facilities of a specified corporation at any time during the corporation's eligibility period. The corporation agrees to allow access to representatives of Investissement Québec and to provide any information that may be 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 Tax Credit Financing

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.

October 2008