



INCOME TAX CREDIT FOR R&D SALARY (biopharmaceutical activities)

INVESTISSEMENT QUÉBEC

Tax Measures Department

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Tax Credit for R&D Salary for Biopharmaceutical Activities

A corporation that carries on a business in Canada and that conducts scientific research or experimental development (R&D) in Québec, or which has such work carried out on its behalf in Québec, may be eligible for a refundable tax credit commonly referred to as the Tax Credit for R&D Salary.

The biopharmaceutical industry is highly dependent on the results of its R&D activities and for many years has accounted for a substantial share of the R&D conducted in Québec. However, the industry is facing a number of challenges, including rising R&D costs, the difficulty of launching new products, competition from emerging countries and the expiry of a number of patents.

NATURE OF THE TAX ASSISTANCE

The higher rate for this tax credit announced in November 2012 was **eliminated** following the 2014–2015 Budget Speech of June 4, 2014. As a result, Investissement Québec cannot accept any applications for initial qualification certificates submitted after June 3, 2014.

However, an enterprise that has already been recognized as an eligible biopharmaceutical corporation can continue to benefit from the higher rate for the taxation year that includes June 4, 2014. Such higher rate can cover from 22% to 30% of eligible expenditures. For details, see page 5 of this document.

The refundable tax credit for R&D salary applies to the salaries that a taxpayer pays his or her employees for R&D conducted in Québec on his or her behalf. It also applies to salaries paid to the employees of a subcontractor who conducts R&D work in Québec for a taxpayer when the latter has a non-arm's-length relationship with the subcontractor. When the subcontractor has an arm's-length relationship with the subcontractor, this tax credit applies to half the portion of the amount of the research contract that can be reasonably attributed to the R&D work performed in Québec on behalf of the taxpayer.

This tax credit is refundable, meaning that the amount of the credit, less income taxes payable, will be paid to the eligible corporation.

ELIGIBLE BIOPHARMACEUTICAL CORPORATION

To qualify as an eligible biopharmaceutical corporation, a corporation must obtain from Investissement Québec the following documents:

- an initial qualification certificate;
- an eligibility certificate in respect of its activities.

The eligibility certificate must be obtained for every taxation year for which the corporation wishes to claim the Tax Credit for R&D Salary at the higher rate.

INITIAL QUALIFICATION CERTIFICATE

To obtain an initial qualification certificate, a corporation must show that the activities that it carries on or will carry on in the course of its business fall into one or more of the following categories of activities related to human health:

- integrated innovative pharmaceuticals (patented products), which consists in making and commercializing drugs as well as carrying out drug-related activities involving basic research, product development, clinical research or chemical synthesis;
- pharmaceutical manufacturing of generics, which consists in making and commercializing generic versions of prescription or over-the-counter drugs whose patents have expired;
- pharmaceutical manufacturing under contract, which consists in making drugs for innovative pharmaceutical companies, generic product companies or large buyers;
- biotechnology, which consists of the following four categories:
 - therapeutic products that stem from research and development of drugs essentially targeting the small molecule market rather than the biological product market. This category also includes the development of drug delivery methods in the body and cellular therapies;
 - diagnostic products that stem from the development, manufacturing and commercialization of such products;
 - biological processes that involve the production of drugs or vaccines. This category also includes the production of pharmaceutical proteins using a genetically modified cell culture or the development of genetically modified organisms for the production of drugs. Lastly, it includes the extraction of active drug ingredients from natural sources;
 - pharmaceutical research that involves using genetic data to define targets for drug action. This category also includes the supply of genomic research products and services;
- contract research, which consists in providing services aimed at developing new drugs, such as bioequivalence studies, preclinical and clinical tests and study management.

ELIGIBILITY CERTIFICATE

A corporation that holds an initial qualification certificate must also obtain an eligibility certificate for every taxation year for which it wishes to claim the Tax Credit for R&D Salary at the higher rate.

To obtain an eligibility certificate, a corporation must show that the activities indicated on its initial qualification certificate represented at least 75% of the activities that it carried out throughout the year covered by the certificate. For this purpose, Investissement Québec considers the duties carried out by all employees of the corporation and the activities performed on its behalf during the relevant fiscal year.

CREDIT RATE AND TERMS OF APPLICATION

To be eligible for this measure, a corporation must have submitted an application for an initial qualification certificate to Investissement Québec **prior to June 4, 2014**, using the form intended for that purpose and providing the documentation required.

Following the 2014–2015 Budget Speech of June 4, 2014, the credit rate was reduced by 20%. For a Canadian-controlled corporation, the higher rate for the credit will range from 22% to 30%.

More specifically, when an eligible biopharmaceutical corporation qualifies as an SMB¹, the rate applicable to the first \$3 million of eligible expenditures is 30% when the corporation's assets, calculated according to the applicable rules, are less than \$50 million. However, the credit declines progressively to 22% for corporations with assets from \$50 million to \$75 million.

This change applies to R&D expenditures incurred after June 4, 2014 or to R&D expenditures incurred in relation to a research contract signed after June 3, 2014, as the case may be.

The progressive reduction in the higher rate is shown in the following table:

Corporations	Higher rate	Higher rate reduced for fiscal years including June 4, 2014
SMBs:		
Corporations with assets of \$50 million or less		
• First \$3 million of eligible expenditures	37.5%	30.0%
• Eligible expenditures exceeding \$3 million	27.5%	22.0%
Corporations with assets of over \$50 million but less than \$75 million		
• First \$3 million of eligible expenditures*	Between 27.5% and 37.5%	Between 22.0% and 30.0%
• Eligible expenditures exceeding \$3 million	27.5%	22.0%
Large businesses:		
Corporations with assets of \$75 million or more		
• All eligible expenditures	27.5%	22.0%

Terms of application

For a fiscal year including June 4, 2014, the higher rate applies to the portion of the year before June 5 and the 20% reduction in the higher rate to the portion of the year after June 4.

* Linear rate reduction based on company assets

¹ For the purpose of this credit, an SMB refers to a Canadian-controlled corporation whose assets, including the assets of associated corporations calculated on a global basis, are less than \$75 million for the preceding fiscal year.

For example, an eligible biopharmaceutical corporation that obtains an eligibility certificate after November 20, 2012 can qualify for a tax credit for R&D salary equal to 27.5% of its eligible R&D expenditures incurred after November 20, 2012 and **before June 5, 2014**. Similarly, expenditures incurred after November 20, 2012 in relation to a research contract signed prior to that date also entitle a corporation to the higher rate.

Moreover, for an eligible biopharmaceutical corporation that qualifies as an SMB for a taxation year that includes November 20, 2012, the \$3 million limit on eligible R&D expenditures that applies to it as an SMB must be prorated. More specifically, the \$3 million limit must be prorated on the basis of the amount of the eligible R&D expenditures that the corporation incurred after November 20, 2012 in relation to the total amount of eligible R&D expenditures that it incurred for the taxation year.

APPLICATION FOR REVIEW

A corporation that disagrees with a decision made by Investissement Québec may file an application for review within 60 days of the notification of the contested decision. To do so, it must send Investissement Québec the “Application for Review” form, which is available at www.investquebec.com. To be admissible, the application for review must be accompanied by the applicable fees.

AMENDMENT AND REVOCATION OF A CERTIFICATE

Investissement Québec may amend or revoke a certificate if information or documents justifying such an action are brought to its attention.

In that case, Investissement Québec will inform the corporation in writing of its intention to amend or revoke the certificate and set forth the reasons on which its decision is based. The corporation has 30 days from the date of the notification to present its arguments and file any relevant documents.

Note that it is important to inform Investissement Québec of any change likely to result in an amendment or revocation.

Moreover, in the event that a corporation receives a tax credit all or part of which it should not have received, Revenu Québec will recover the amount of the overpayment by means of a special tax.

PENALTIES

Any person who provides false or incorrect information or who obstructs the work of an Investissement Québec representative is guilty of an offence. In such cases, the person shall be subject to a fine of a minimum of \$2,000 and a maximum of \$25,000.

ELIGIBILITY APPLICATION AND CLAIMING OF TAX CREDIT

The application for the credit and the calculation thereof are done at the end of the taxation year, when the corporation files its income tax return with Revenu Québec. The tax credit is taxable.

To receive the tax credit for a particular calendar year, an eligible corporation must enclose with its tax return:

- the form prescribed by Revenu Québec regarding the Tax Credit for R&D Salary;
- the initial qualification certificate and the eligibility certificate issued by Investissement Québec for the eligible biopharmaceutical corporation.

To apply for an initial qualification certificate and an eligibility certificate, the corporation must complete the appropriate form, which is available on Investissement Québec's website. The form may also be obtained from an Investissement Québec advisor.

Issuance of a certificate does not guarantee that the tax credit will be obtained. The corporation must also satisfy the eligibility criteria, which are verified by Revenu Québec, and in particular the rules regarding the deadline for filing applications for certificates. These documents must be filed within 18 months following the end of the corporation's fiscal year. If Revenu Québec does not receive the applications within the 18-month period, the credit will be refused. However, certain exceptions apply:

- If the corporation obtained its certificates after the 15th day preceding the expiration of the 18-month period and filed its application for a certificate with Investissement Québec before the expiration of the 15th month following the end of its fiscal year, the credit will be granted.
- If the application for a certificate is filed with Investissement Québec **after the end of the 15th month following the end of the corporation's fiscal year and the certificates are issued after the 15th day preceding the expiration of the 18-month period**, there is no guarantee that the corporation will obtain the tax credit. This decision lies solely with Revenu Québec.

Investissement Québec does not grant priority in processing files. In addition, if the application for a certificate is filed with Investissement Québec after the expiration of the 18th month following the end of the corporation's fiscal year, the corporation may not be entitled to the tax credit.

To be considered admissible by Investissement Québec, the corporation's application for an eligibility certificate must be signed and completed. It must contain all required information and be accompanied by all required documents, including the information and documents requested in the appendices. The application form can also be obtained from an Investissement Québec advisor.

ON-SITE VISIT

Investissement Québec reserves the right to visit an eligible corporation's facilities at any time during the eligibility period. The corporation must therefore agree to give Investissement Québec's representatives access to its facilities and provide any information that they may require during the visit.

FINANCING OF THE REFUNDABLE TAX CREDIT

In certain cases, Investissement Québec may provide a loan guarantee or a loan to ensure financing of the refundable tax credit.

INTERACTION WITH OTHER TAX CREDITS, ASSISTANCE AND BENEFITS

Tax legislation includes rules aimed at limiting the number of forms of tax assistance that a single taxpayer or a group of taxpayers can receive for expenses that may qualify for more than one tax credit. These rules also apply to corporations eligible for the Tax Credit for R&D Salary.

Furthermore, the amount of any government assistance, non-government assistance, benefit or advantage attributable to the labour expenses incurred by an eligible corporation during a particular taxation year must be subtracted from such expenses, in accordance with the usual rules.

RATE SCHEDULE

Investissement Québec charges fees for processing eligibility applications or applications for review related to the tax measures it administers. For more information, contact an Investissement Québec advisor or consult the [rate schedule](#) on Investissement Québec's website.

This detailed fact sheet is a summary of the main rules set out in the November 20, 2012 Budget Speech. Other conditions may apply in certain cases. This fact sheet is not an interpretation by Investissement Québec of the legislative provisions relating to the tax measure. For further information, please refer to the relevant legislation.

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