

MONTREAL FOREIGN TRADE ZONE AT MIRABEL (ZCIMM)

To foster optimum utilization of the airport facilities at Mirabel and attract strategic companies that contribute to the development of Mirabel and strengthen the role of Greater Montréal as a hub of international trade, a package of tax benefits was introduced in the 1999-2000 budget of March 9, 1999.

The tax benefits relating to the Montréal Foreign Trade Zone at Mirabel (ZCIMM) consist of a holiday from income tax, the tax on capital and employer contributions to the Health Services Fund and various refundable tax credits detailed below. In addition, certain foreign specialists employed by an eligible corporation may be granted a tax exemption.

This detailed fact sheet deals solely with the assistance available to corporations under the ZCIMM measure. For more details regarding the tax holiday for foreign specialists, refer to the "Foreign specialist" detailed description.

The ZCIMM 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.

Eligible Corporation

Among the conditions to satisfy to be eligible for the ZCIMM tax measure, a corporation must, during a year, have an establishment in Québec and carry on an eligible business in the ZCIMM. In addition, the corporation must not be:

- a corporation that is tax-exempt for the year in question;
- a Crown corporation or a wholly-controlled subsidiary of such corporation.
- a corporation governed, during the year, by an act incorporating a labour fund.

Special rules apply for a corporation that temporarily carries on an eligible business outside the ZCIMM.

Although this tax measure was eliminated in the 2003-2004 budget (June 12, 2003), certain corporations may continue to benefit from this measure in accordance with the terms and conditions that applied before June 12, 2003. In general, with the exception of the tax credit for the construction of strategic buildings, a corporation can enjoy the benefits of this measure if it satisfies either of the following conditions:

- It obtained an eligibility certificate for this measure **before June 12, 2003**; or
- It filed a written application, **before June 12, 2003**, with the Société de développement de la Zone de commerce international de Montréal à Mirabel, to obtain an eligibility certificate, accompanied by the documents needed 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 an eligible corporation is acquired either by another corporation eligible for the same measure, or by a corporation that already controls another corporation eligible for the same measure;
- Control of the eligible corporation was acquired after June 11, 2003 following 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 if the acquisition of control is the result of a transaction sufficiently advanced on June 11, 2003 and binding on the parties on such date.
- Control of an eligible 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 corporation eligible for this measure. The corporate restructurings covered by this exception are as follows:

- Amalgamation or merger provided that control of the eligible corporation is not acquired during restructuring.
- Liquidation or winding-up by the parent company of an eligible corporation that is a wholly owned subsidiary.
- Corporate restructuring between two corporations that are part of the same corporate group, but only if the two corporations wanting to transfer eligible activities are owned in the same proportions by one person or by each member of a group of persons.

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

In all cases, Revenu Québec is responsible for determining whether there has been acquisition of control. In this context, the issuing of an eligibility certificate to an eligible corporation after June 11, 2003 confirms only that the eligibility criteria under the authority of Investissement Québec have been ascertained.

Eligible Business

In general, an “eligible business” of a corporation, for a taxation year, means a business carried on by the corporation in the year for which an eligibility certificate is issued by Investissement Québec.

In addition to this condition, the corporation must keep separate books for the activities of such eligible business carried out in the ZCIMM.

In general, for the purposes of the ZCIMM tax measure, an “eligible business” must carry out activities in one of the following sectors:

- international logistics;
- aircraft maintenance and repair;
- supplemental training in the field of aviation;
- light processing.

Investissement Québec could also issue an eligibility certificate to any other business carried on by a corporation in the ZCIMM whose activities are of particular interest for Québec's economy.

Corporations applying for an eligibility certificate had to satisfy other requirements concerning in particular the complementary nature of their activities and job creation.

Nature of the Tax Credit

TAX HOLIDAY

A corporation that carries on an eligible business or is a member of a partnership that carries on an eligible business may claim, in relation to such business, the following tax benefits:

- tax exemption on the income earned from such business,
- exemption from the tax on capital regarding the portion of the corporation's paid-up capital reasonably attributable to carrying on such business, and
- exemption from contributions to the Health Services Fund (HSF) regarding the salaries paid to employees of such eligible business who carry out at least 75% of their duties in the ZCIMM after the effective date of such certificate.

In general, the eligibility period for this holiday ends on whichever of the following two dates is later: December 31, 2010 or 10 years after the effective date of the eligibility certificate relating to the business (until December 31, 2013 at the latest).

TAX CREDIT REGARDING SALARIES

A corporation that carries on an eligible business or is a member of a partnership that carries on an eligible business may claim, for a taxation year, a refundable tax credit regarding the salaries paid to its eligible employees.

Eligible employee

The expression "eligible employee" of a corporation or a partnership means an employee for whom Investissement Québec has issued an eligibility certificate to the corporation or partnership.

To be eligible, the employee must satisfy the following conditions:

- 75% of his duties must consist of work relating to an activity of the business regarding which such corporation or partnership obtained an eligibility certificate, with the **exception of a light processing business**;
- he must hold a full-time job, with a minimum of 26 hours of work a week, for a stipulated minimum of 40 weeks;
- he must not be a specified shareholder of the corporation or a member of the partnership satisfying certain criteria, in particular being entitled to at least a 10% share of the partnership's income or loss.

The latter requirement falls within the jurisdiction of Revenu Québec.

For employee qualification purposes, some duties are not eligible. In particular, these include duties inherent in administrative or customer support services, advertising, marketing and telemarketing, communications, solicitation or public relations, administrative services and support services (e.g.: accounting, reception, secretariat, human resources), management and administration (e.g.: senior management and executives, legal or financial services) and installation of the technology at the client's premises.

Applicable rate

With respect to salaries incurred for an eligible employee before January 1, 2002, the amount of the tax credit is equal, for a taxation year, to 40% of such salaries incurred during such year. However, the tax credit is capped at \$15 000 per employee, on an annual basis.

Concerning the salaries incurred regarding an eligible employee during the period between December 31, 2001 and January 1, 2005, the amount of the tax credit is equal, for a taxation year, to 30% of such salaries incurred during such year. However, the tax credit is capped at \$12 000 per employee, on an annual basis.

For salaries incurred regarding an eligible employee during the period between December 31, 2004 and the end of the corporation's eligibility period, the amount of the tax credit is equal, for a taxation year, to 20% of such salaries incurred during such year. However, the tax credit is capped at \$8 000 per employee, on an annual basis.

In general, the eligibility period for this credit ends on whichever of the following two dates is later: December 31, 2010 or 10 years after the effective date of the eligibility certificate relating to the business (until December 31, 2013 at the latest).

TAX CREDIT FOR ACQUISITION OR LEASING EXPENSES FOR ELIGIBLE ASSETS

A corporation that carries on an eligible business or is a member of a partnership that carries on an eligible business can claim, for a taxation year, a tax credit for acquisition or leasing expenses for an eligible asset.

In the case of an acquisition, the expression “eligible asset” means a depreciable immovable, other than an intangible asset, regarding which the corporation or the partnership of which the corporation is a member obtained an eligibility certificate. To be eligible, such asset must also satisfy the following conditions:

- prior to its acquisition by the corporation or the partnership, it must not have been used for any purpose nor acquired to be used or rented for any purpose whatsoever;
- it must be used exclusively in the ZCIMM or almost exclusively to earn income from an eligible business;
- it must be so used by the corporation or the partnership within a reasonable time following its acquisition and for a minimum continuous period of three years after the beginning of its use;
- it must be acquired by the corporation or the partnership, before the end of its eligibility period, within a reasonable period following the effective date of the eligibility certificate.

The expression “eligible asset”, in the case of a rental, means an asset regarding which the corporation or partnership has obtained an eligibility certificate. To be eligible, such asset must also satisfy the following conditions:

- prior to its rental by the corporation or the partnership, it must not have been used for any purpose nor acquired to be used or rented for any purpose whatsoever;
- it must be used, during the rental period, exclusively in the ZCIMM or almost exclusively to earn income from an eligible business;
- it must be so used by the corporation or the partnership within a reasonable time following its rental;
- it must be rented by the corporation or partnership during its eligibility period.

While not forming an exhaustive list, the following assets do not qualify as acquired or rented eligible assets:

- office furniture, general-purpose equipment such as photocopiers and fax machines, as well as equipment used by employees whose duties lie in support or administration;
- an aircraft or vehicle or rolling stock, except equipment for transshipment or handling of merchandise within a warehouse, hangar or an assembly workshop;
- equipment integrated into a strategic building that gives rise, for a taxation year, to a refundable tax credit for the construction of a strategic building in the ZCIMM.

In general, the eligibility period for this credit ends on whichever of the following two dates is later: December 31, 2010 or 10 years after the effective date of the eligibility certificate relating to the business (until December 31, 2013 at the latest).

Applicable rate

Concerning the acquisition of an eligible asset, the amount of the tax credit is equal, for a taxation year, to 25% of the expenses incurred by the corporation, in the year, for the acquisition of such eligible asset that it included in the capital cost of the asset.

Concerning the rental of an eligible asset in a taxation year, the amount of the tax credit is equal to 25% of the rent paid by the corporation, in the year, regarding the eligible rental period, for the rental and use of such eligible asset during such year. The expression “eligible rental period” means the rental period indicated on the certificate issued to the corporation or to the partnership regarding such asset.

TAX CREDIT FOR CUSTOMS BROKERAGE SERVICES

A corporation that carries on an eligible business or is a member of a partnership that carries on an eligible business in the ZCIMM can claim, for a taxation year, a refundable tax credit for fees incurred under an eligible customs brokerage contract.

The expression “eligible customs brokerage contract” means a contract regarding which the corporation or partnership has obtained an eligibility certificate from Investissement Québec.

In this regard, the corporation or partnership must provide Investissement Québec with a copy of the contract that may constitute an eligible customs brokerage contract. The contract must have been concluded with a customs broker at arm’s length with the corporation or the partnership at the time of the contract.

Under such contract, the customs broker must supply such services to the corporation or the partnership, prior to the end of the corporation’s eligibility period, in the course of the activities of the eligible business.

In general, the eligibility period for this credit ends on whichever of the following two dates is later: December 31, 2010 or 10 years after the effective date of the eligibility certificate relating to the business (until December 31, 2013 at the latest).

Applicable rate

More specifically, concerning the fees incurred regarding an eligible customs brokerage contract before January 1, 2002, the amount of the tax credit is equal, for a taxation year, to 40% of such fees incurred during such year. However, the tax credit is capped at \$30 000, on an annual basis.

Concerning the fees incurred regarding an eligible customs brokerage contract during the period between December 31, 2001 and January 1, 2005, the amount of the tax credit is equal, for a taxation year, to 30% of such fees incurred during such year. However, the tax credit is capped at \$24 000, on an annual basis.

For fees incurred regarding an eligible customs brokerage contract during the period between December 31, 2004 and the end of the corporation’s eligibility period, the amount of the tax credit is equal, for a taxation year, to 20% of such fees incurred during such year. However, the tax credit is capped at \$16 000, on an annual basis.

TAX CREDIT FOR CONSTRUCTION EXPENSES OF A STRATEGIC BUILDING

A corporation which carries on a business in Québec during a taxation year, has an establishment there, and constructs or has constructed a strategic building on the territory of the ZCIMM can claim, for such year, a refundable tax credit for the construction of an eligible strategic building.

Such a corporation must not be a corporation that is tax-exempt for the year, a Crown corporation or a wholly-controlled subsidiary of such a corporation or a corporation governed, during the year, by an act incorporating a labour fund.

The expression "eligible strategic building" means, for a taxation year, a building or part of a building that satisfies the following requirements:

- it is located on the territory designated as the ZCIMM;
- at least 75% of the total space of the strategic building houses, or is intended to house, one or more corporations or partnerships that are holders of an eligibility certificate for the purposes of the tax benefits relating to the ZCIMM;
- no portion of the building is used or intended to be used for residential purposes;
- the corporation holds, regarding the construction of such building, for such year, an eligibility certificate and a work completion certificate issued by Investissement Québec.

The eligible construction expenses incurred by the corporation, during a taxation year, mean the portion of the capital cost of a strategic building that is incurred during such year by the corporation.

These expenses do not include expenses relating to any equipment included in the strategic building for which a tax credit is claimed for acquisition or leasing expenses of assets under the Montréal Foreign Trade Zone at Mirabel.

A corporation can claim the tax credit for construction of a strategic building regarding construction, renovation and conversion work done under an agreement concluded before June 12, 2003 for work carried out no later than June 12, 2004.

In the case where the corporation carries on an eligible business as defined below, it may claim this credit regardless of the date the work begins but only for work done no later than June 12, 2004.

To maintain the integrity of the tax credit and preserve the link between the tax credit and the reason for which it is granted, rules stipulate the total or partial recapture of the credit for each of the nine taxation years following the year in which construction work on the building is completed.

Applicable rate

The amount of the tax credit, for a taxation year, is 25% of eligible construction expenses incurred during such year, by an eligible corporation, regarding the construction of a strategic building.

Interaction with Other Tax Credits, Assistance, Benefits, etc

The salaries, acquisition or rental expenses for eligible assets, fees relating to customs brokerage contracts and construction expenses relating to a strategic building giving rise to tax credits must be reduced by the amount of any government assistance, any non-government assistance and any profit or gain obtained or attributable to such expenses, according to the usual rules.

As of April 22, 2005, the repayment of an amount of assistance, benefit or advantage that had previously reduced the amount of an expenditure for purposes of calculating the tax credit granted to the corporation will be added to the amount of expenditures for the purposes of the tax credit to which such taxpayer is 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.

The amounts regarding which a tax credit is claimed by a corporation or a partnership must have been paid at the time the tax credit is claimed.

Eligibility Certificate of the Business

To be eligible for this measure, a corporation must have applied to the ZCIMM **before June 12, 2003** for eligibility in relation to a business that the corporation or partnership wishes to have qualified using the form stipulated for that purpose, duly completed and accompanied by the required documentation.

To obtain its tax holiday, the eligible corporation must file, with its annual tax return and the prescribed forms, a copy of the eligibility certificate relating to the eligible business issued by Investissement Québec (or by the ministère des Finances).

Annual Attestations

To obtain the annual eligibility attestations the corporation needs to claim the tax credits, such corporation or partnership of which the corporation is a member must, for each taxation year or for each fiscal year, complete the appropriate form and send it to Investissement Québec. Such is the case to obtain the following documents:

- annual eligibility certificate regarding employees;
- annual eligibility certificate regarding customs brokerage services;
- annual eligibility certificate regarding eligible assets;
- annual eligibility certificate regarding strategic buildings (not available to partnerships).

In addition, the corporation must, no later than the end of the taxation year following the one during which the work is completed, fill in the “Application for Work Completion Certificate Regarding the Construction of a Strategic Building” and send it to Investissement Québec.

In general, the work completion date corresponds to the date on which the strategic building is used in accordance with the use for which it is intended.

Annual attestation applications are filed using the forms available from the Direction des mesures fiscales of Investissement Québec.

Nature of Tax Credit and Claim

The tax credit enables an eligible corporation to reduce its tax. In the case of a refundable tax credit, if the credit exceeds tax payable, the eligible corporation obtains a refund. The amount of the credit is calculated at the end of the taxation year.

The tax credit is taxable. However, to determine the amount, it will not be considered as an amount of assistance or as an incentive payment.

To receive these tax benefits, an eligible corporation must enclose with its tax return, for its taxation year, the forms prescribed by Revenu Québec as well as a copy of the eligibility certificates issued by Investissement Québec. In addition to the copy of the business eligibility certificate, a copy of the eligibility certificates regarding employees, eligible assets, a customs brokerage contract or a strategic building and a copy of the work completion certificate obtained from Investissement Québec must be enclosed with its tax return.

On-site visit

Investissement Québec reserves the right, at any time during the period of validity of the certificate, to visit the facilities of the corporation or the partnership carrying on an eligible business. Accordingly, the corporation must undertake 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 certificates and attestations and ensuring compliance with eligibility criteria lies exclusively with Investissement Québec. The fact that Investissement Québec has issued an eligibility certificate or attestation is not an absolute guarantee that the corporation may benefit from the fiscal measure concerned by such certificate or attestation. The eligibility certificate or 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 Revenu Québec, must also be satisfied before the corporation can claim the benefits of the fiscal measure concerned.

- *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 certificate issued by Investissement Québec. In this specific case, the responsibility of Revenu Québec regarding an eligibility certificate is limited to checking that the corporation actually has the certificate. It is not responsible for checking the items underlying the issuing of such certificate 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 according to the rules on the acquisition of control of the eligible corporation.

Special Tax

In the event that the amounts regarding which tax credits have been granted are repaid to the corporation or the partnership, in a year following the one in which the tax credits were granted, such credits may be recaptured by means of a special tax stipulated by the *Taxation Act*.

As specified above, rules stipulate the total or partial recapture of the tax credit granted in relation to the construction of strategic buildings where the corporation fails to meet its obligation, for each of the nine taxation years following the taxation year during which construction work on such building is completed, to obtain an eligibility certificate or if it disposes of such building.

Lastly, under the tax credit for acquisition or rental expenses of an eligible asset, if an eligible asset is not used exclusively or almost exclusively in the ZCIMM and exclusively to earn income from an

eligible business during a minimum and continuous period of three years following the beginning of use of such asset, the refundable tax credit may be recaptured by means of a special tax. However, such special tax will not apply in situations where the asset ceases to be used by the corporation because of loss, involuntary destruction caused by fire, theft or water, or a major breakdown. In addition, such special tax will not apply in situations where the asset ceases to be used by the corporation because of obsolescence. However, an asset will be deemed not to be obsolete at a given time during such period if the corporation disposes of it at such time for proceeds of disposition equal to or greater than 10% of the initial cost of such asset for 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 Financing of the Refundable Tax Credit

In certain cases, Investissement Québec may offer interim tax credit financing for the ZCIMM.

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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