



Synergy Capital Tax Credit

INVESTISSEMENT QUÉBEC

Tax Measures Department

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Synergy Capital Tax Credit (CAPS)

This tax measure aims to foster business networking and synergy between Québec businesses. **It enables an established corporation (qualified investor) that subscribes** for shares of an innovative growth-stage corporation (**qualified corporation**) to obtain a **non-refundable tax credit** for a maximum of \$225,000 per year.

A qualified corporation that **wishes to issue shares** of its capital stock to a qualified investor that is eligible for the Synergy Capital Tax Credit **must obtain an authorized placement certificate from Investissement Québec in advance.**

NATURE OF THE TAX MEASURE

Application Date

Investissement Québec will be able to accept an application for the issuing of an authorized placement certificate that is **filed after December 31, 2020**, and the Synergy Capital Tax Credit will apply in respect of a **share subscription carried out by a qualified investor after December 31, 2020.**

Rate of the Tax Credit

A qualified investor, for a taxation year, will be able to claim a non-refundable tax credit equal to **30%** of the total amounts, each of which is an eligible investment of the investor for the year, and **not exceeding \$750,000.**

AUTHORIZED PLACEMENT CERTIFICATE

To obtain an authorized placement certificate, a corporation will be required to show, to the satisfaction of Investissement Québec, that it **meets the conditions to qualify as a qualified corporation** at the date the application for issue of the certificate is filed with Investissement Québec.

The authorized placement certificate issued to a corporation **will certify that the corporation is authorized to issue shares of its capital stock, for the purposes of the Synergy Capital Tax Credit**, for an amount not exceeding the amount of the authorized placement indicated therein.

The authorized placement certificate issued **will be valid for a six-month period** following the day of its issue. The qualified corporation can, however, before the end of that period, apply to Investissement Québec to extend the certificate's period of validity for a two-month period.

QUALIFIED CORPORATION

To qualify as a qualified corporation, the corporation must meet the following conditions:

- be a **Canadian-controlled private corporation (CCPC)** throughout **its most recent taxation year** ended before the day the application is filed with Investissement Québec that, in that year, carries on a business in Québec and has an establishment in Québec;
- carry on activities in Québec for that taxation year representing at least 75% of all its activities;
- have paid-up capital for that taxation year of less than \$15 million;
- have gross income, for its most recent fiscal period ended before the day the application for the authorized placement certificate is filed, of less than \$10 million, and carry on activities, for that period, that are mainly eligible activities;

- show, at the time its application for issue of an authorized placement certificate is filed, that it has been carrying on eligible activities for at least 12 months.

In the event that a corporation's most recent taxation year or most recent fiscal period ended before the day its application for the authorized placement certificate is filed **has fewer than 183 days**, the review of compliance with the conditions related to the proportion of its activities in Québec, its gross income and the proportion of its eligible activities will cover its most recent taxation year or most recent fiscal period, as applicable, ended before the day its application for the authorized placement certificate is filed with Investissement Québec having at least 183 days.

Period for Meeting the Eligibility Conditions

Furthermore, the conditions relating to the corporation's status as a Canadian-controlled private corporation, the carrying on of a business in Québec, the presence of an establishment in Québec and the proportion of its eligible activities must also be met **for the particular taxation year or particular fiscal period that includes the date of filing** of the application for issue of the authorized placement certificate and for each taxation year or fiscal period that begins **in the 48-month period following the end** of the particular taxation year or particular fiscal period, as applicable. Likewise, **the corporation's activities must be carried on mainly in Québec** for each of those years.

The Corporation's Paid-Up Capital

In general, the paid-up capital of a corporation, for a particular taxation year, is equal to its paid-up capital determined for the taxation year preceding the particular year. Where the corporation is a member of an associated group, for the taxation year, the corporation's paid-up capital takes into account the paid-up capital of the members of the associated group, according to the usual rules.

The Corporation's Gross Income

Where an eligible corporation is associated with other corporations, at any time in a fiscal period, its gross income for that year corresponds to the amount that would be the gross income of all those associated corporations, in respect of that year, calculated on the basis of the consolidated statement of the results of the associated corporations for the year.

Activities in Québec

A corporation's activities in Québec, for a taxation year, represent at least 75% of all its activities for the year if the proportion that the aggregate of the salaries or wages paid by the corporation to its employees of an establishment of the corporation located in Québec is of the aggregate of the salaries or wages it paid, for that year, is equal to at least 75%.

A corporation's activities, for a taxation year, are carried on mainly in Québec if the proportion that the aggregate of the salaries or wages paid by the corporation to its employees of an establishment of the corporation located in Québec is of the aggregate of the salaries or wages it paid, for that year, exceeds 50%.

Eligible Activities

A corporation's activities, for a fiscal period, are mainly eligible activities if the proportion that its gross income from such eligible activities is of the aggregate of its gross income, for the fiscal period, exceeds 50%.

The following activities are eligible activities:

- life sciences, more specifically:
 - research, development, production and marketing of medications for human and animal health;

- design, development, manufacturing and commercialization of physical or digital medical products, other than medications;
- research, development, production and marketing of natural health products;
- manufacturing or processing;
- green technologies, that is, manufacturing or processing and research and development for the commercial use of technologies that boost energy efficiency or energy savings, or reduce greenhouse gas emissions or the environmental impact;
- artificial intelligence, that is, the design and development of artificial intelligence solutions;
- information technologies, that is, computer and peripheral equipment manufacturing, semi-conductor and other electronic component manufacturing, radio and television broadcasting and wireless communications equipment manufacturing, software publishing, video game publishing, data processing, data hosting and related services, and computer systems design and related services.

AUTHORIZED PLACEMENT AMOUNT

The **authorized placement amount** of a qualified corporation for which the certificate is issued **will be determined by Investissement Québec** further to the presentation by the qualified corporation of a detailed description of the projected use of the funds from the issuing of shares of its capital stock related to the authorized placement certificate and the expected time frame for use of the funds. The projected use of the funds must meet the requirements for eligible use of the funds.

The aggregate of the amounts each of which corresponds to the authorized placement amount of a qualified corporation for which an authorized placement certificate has been issued, **for each 12-month period, cannot exceed \$1 million.**

Use of Funds from the Share Issue

The funds from the issuing of shares of a corporation's capital stock related to an authorized placement certificate must be used for investments **related to the carrying on of its business in connection with the eligible activities**, in compliance with the description presented when it filed its application for issue of the authorized placement certificate and any modification thereto made in agreement with Investissement Québec.

However, **where the corporation's activities are mainly activities in the manufacturing or processing sector**, other than an activity related to life sciences, green technologies or information technologies, the funds from the issuing of shares related to the authorized placement certificate must be used in compliance with the description presented and for investments related to the carrying on of its business **to improve the use of or connection to new technologies or to integrate technologies enabling, in particular, digitization or automation of the business's activities.**

- **Use of funds for a non-eligible purpose**

The use of funds from the issuing of shares for any of the following purposes will be **a use for a non-eligible purpose**:

- making investments outside Québec, unless the corporation can show that the investment is directly connected to the carrying on of its business in Québec;
- repaying a debt, except with the agreement of Investissement Québec;
- lending money;
- purchasing land for resale;
- purchasing, acquiring or subscribing shares of other corporations, an interest in partnerships or in trusts;

- purchasing a business;
- paying dividends, repaying principal or any other disbursement to a shareholder of the corporation or a person related to such a shareholder;
- purchasing shares of its capital stock.

Information To Be Transmitted to Investissement Québec

Although Investissement Québec, further to the issuing of the authorized placement certificate, will verify that the corporation meets the conditions allowing it to qualify as a qualified corporation, it is up to Revenu Québec to determine whether a corporation is a Canadian-controlled private corporation, whether it has an establishment in Québec, whether it carries on a business in Québec, as well as the amount of its paid-up capital and of the salaries or wages paid by the corporation to its employees of an establishment located in Québec and the salaries or wages paid to all its employees.

Consequently, the corporation must submit to Investissement Québec its financial statements, income tax returns and any other document that could be useful for validating the information transmitted. Investissement Québec can also require the corporation to provide it with an authorization to obtain from Revenu Québec the necessary information to review compliance with these eligibility conditions.

Responsibilities of Investissement Québec

In addition to issuing authorized placement certificates, Investissement Québec will be responsible for making sure that the total of the authorized placement amounts indicated in each of the authorized placement certificates issued in a calendar year, does not exceed \$30 million.

Monitoring by Investissement Québec

A corporation to which an authorized placement certificate has been issued is required to transmit to Investissement Québec, for that certificate:

- the name and address of each investor to which shares of its capital stock have been issued;
- the number of such shares issued to the investor;
- the amount paid by the investor for subscription of shares;
- the portion of the corporation's authorized placement amount attributed to the investor.

The corporation must transmit this information:

- at Investissement Québec's request or, at the latest, on the day the **“Authorized Placement Monitoring” form** is filed for the particular taxation year or fiscal period including the day the application is filed.

Also, the corporation will be required, for the particular taxation year or particular fiscal period including the day the application for issue of the authorized placement certificate is filed with Investissement Québec and for each taxation year or fiscal period that begins in the 48-month period following the end of the particular taxation year or particular fiscal period, as applicable, to transmit to Investissement Québec its financial statements and income tax returns, as well as a description of the use of the funds from the issuing of shares of its capital stock related to the authorized placement certificate. It will also be required to transmit any other document necessary for the administration of the tax credit.

For each taxation year or fiscal period, the qualified corporation must complete the **“Authorized Placement Monitoring” form** available on Investissement Québec's website **within six months of the end of the particular taxation year or fiscal period.**

OBLIGATIONS RELATED TO THE *SECURITIES ACT*

A corporation that makes a private placement or a public offering to a qualified investor pursuant to the Synergy Capital Tax Credit might no longer enjoy the status of a private issuer. A corporation that submits to Investissement Québec an application for an authorized placement certificate should therefore **make sure that it fulfils the obligations of the *Securities Act*.**

QUALIFIED INVESTOR AND EXCLUDED INVESTOR (ADMINISTERED BY REVENU QUÉBEC)

The expression “**qualified investor**” means a corporation, other than an excluded investor, which **has an establishment in Québec**, where it carries on a business, and which subscribes for shares of the capital stock of a “**qualified corporation**” that constitutes an “**eligible investment**.”

Under the *Taxation Act*, an **excluded investor**, for a taxation year, means:

- a specified financial institution, an investment corporation, a mortgage investment corporation or a mutual fund corporation;¹
- a corporation whose main business consists in:
 - leasing, developing or selling immovable property it owns;
 - granting loans or investing funds in the form of shares of the capital stock of other corporations, bonds, debentures, bills, notes, obligations secured by mortgage or similar obligations;
 - a combination of those activities.
- a Crown corporation or a wholly controlled subsidiary of such a corporation.

Eligible investment

The expression “eligible investment” of a qualified investor, for a taxation year, corresponds to the amount paid, in the year, by the investor to a corporation, for the subscription, in the year, of shares of the corporation’s capital stock, provided all the following conditions are met:

- the shares issued to the investor at the time of the subscription are common shares of the corporation’s capital stock with full voting rights in all circumstances;
- the shares are subscribed by the investor as first purchaser;
- they are fully paid up at the time of subscription for consideration in money equal to their fair market value at the time of subscription;
- at the time the shares of the corporation’s capital stock are issued, the corporation holds a valid authorized placement certificate;
- the investor did not alienate or otherwise dispose of other shares of the corporation’s capital stock on the day of the share issue or at any time included in the 24-month period preceding that day;
- at the time the shares are issued, the investor and the corporation are dealing with each other at arm’s length and in the particular taxation year including the day of the share issue and in each taxation year that begins in the 48-month period following the end of the particular year, the investor and the corporation are not associated corporations;
- the investor does not alienate, exchange or otherwise dispose of the shares in the 60-month period that begins the day of the share issue, except in case of bankruptcy or insolvency of the investor or the corporation, unilateral redemption of the shares by the corporation or repurchase

¹ *Taxation Act*, s. 1.

of the shares at the investor's request where the legislation confers on the investor the right to demand repurchase of all the investor's shares.²

The amount of the qualified investor's eligible investment related to subscription of shares of the corporation's capital stock cannot, however, exceed the authorized placement amount indicated in the authorized placement certificate issued to the corporation or the portion of that amount attributed to the investor.

OTHER TERMS OF APPLICATION

The tax credit for a taxation year can be deducted from a qualified corporation's income tax instalment payments, according to the usual rules set out in the *Taxation Act*.

The portion of the tax credit of a taxation year that cannot be used to reduce the tax of the qualified investor, for the year, may be carried back to the preceding three years or forward to the following 20 years. However, it may not be carried to a taxation year ended before January 1, 2021.

APPLICATION FOR REVIEW

A corporation that disagrees with a decision made by Investissement Québec may file an application for review within 60 days of being notified of that contested decision. To do so, it must send Investissement Québec the Application for Review form available on the www.investquebec.com website. To be admissible, the application for review must set out new facts or information and must be accompanied by payment of the applicable fees indicated in the rate schedule.

AMENDMENT AND REVOCATION OF CERTIFICATE

Investissement Québec may amend or revoke a certificate if warranted by information or documents that have been brought to its attention.

In this case, Investissement Québec will notify the corporation in writing of its intention to amend or revoke the certificate and state the reasons for doing so. The corporation has 30 days from the date of the notice to present its arguments and file any relevant documents.

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

In addition, penalties apply to the qualified corporation if its authorized placement certificate is revoked or the authorized amount is reduced. Penalties also apply if it does not meet certain eligibility conditions or if the amount attributed to the investor exceeds the authorized placement amount.³

Moreover, if a corporation has received a tax credit when it should not have received it in whole or in part, Revenu Québec will recover the amount of the overpayment by means of a special tax.⁴

PENALTIES

Anyone who provides false or incorrect information or impedes the work of an Investissement Québec representative in his or her duties is guilty of an offence. In such a case, the person is liable to a fine of not less than \$2,000 and not more than \$25,000.

² *Business Corporations Act* (CQLR, chapter S-31.1), s. 372.

³ *2020–21 Budget, Additional Information*, pp. A34–A35.

⁴ *2020–21, Budget Additional Information*, pp. A35–A36.

APPLICATION FOR ELIGIBILITY AND CLAIMING OF TAX CREDIT

To apply for an authorized placement certificate, the qualified corporation must complete the prescribed form available on the Investissement Québec website. The issuance of an authorized placement certificate does not guarantee that the tax credit will be granted to the qualified investor.

Furthermore, only complete applications will be processed. To be considered complete by Investissement Québec, the application for an authorized placement certificate must be duly signed and completed and include all appendices. It must contain all the prescribed information and be accompanied by all the documents requested in the appendices.

For the qualified investor, the application for the tax credit and its calculation are made at the end of the taxation year, at the time the corporation (investor) files its income tax return with Revenu Québec. In order to qualify for this tax credit for a particular taxation year, a qualified investor must attach to its tax return:

- the form prescribed by Revenu Québec relating to the Synergy Capital Tax Credit;
- a copy of the authorized placement certificate issued by Investissement Québec to the qualified corporation and confirmation in writing by this corporation's authorized representative of the amount received from the investor for the issuance of shares of the corporation's capital stock, the date when the shares were issued and the portion of the corporation's authorized placement amount attributed to the investor.

Filing of Documents with Revenu Québec

The qualified investor must submit its application for a tax credit and the necessary documents by the latest:

- the last day of the 18th month following the end of the corporation's fiscal year in question.

SITE VISIT

Investissement Québec reserves the right, at any time during the eligibility period, to visit the facilities of a qualified corporation. Therefore, the latter must agree to allow access to Investissement Québec representatives and to provide the information that they may require during the visit.

FEES

Investissement Québec charges fees for the analysis of any eligibility application or any application for review it administers. For more information, contact an Investissement Québec advisor or see the [rate schedule](#) available on the website.

PRECEDENCE OF LAWS

This fact sheet is a summary of the main provisions of the section of the 2020–2021 Budget⁵ section regarding additional information on the fiscal measures of the Québec Economic Plan in relation to the sectoral parameters of this tax measure and certain provisions contained in the Taxation Act. Other conditions may apply in some cases. Thus, this fact sheet does not constitute an interpretation by

⁵ 2020–21 Budget tabled on March 10, 2020.

Investissement Québec of the legislative provisions pertaining to the fiscal measure. For more information, please see the various applicable laws.

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