

Significant changes to Quebec R&D tax credit program

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On December 2, 2014, Quebec Finance Minister Carlos Leitão announced changes to Quebec's research and development (R&D) tax credit program, as part of his economic update announcement. Significantly, Quebec will be introducing a minimum expenditure threshold below which otherwise qualified expenditures will not be eligible for the R&D tax credit.

Minimum expenditure thresholds

Effective for fiscal years beginning on or after December 3, 2014,¹ the first \$50,000 of expenditures otherwise eligible for the R&D tax credit will be excluded from eligibility, for corporations with assets not exceeding \$50 million in the previous year. This minimum threshold will increase linearly from \$50,000 to a maximum of \$225,000 for corporations with assets between \$50 million and \$75 million in the previous year, and will be \$225,000 where assets exceed \$75 million. References to assets in this context do not take into account the assets of associated corporations. Full details are provided in the appendix to this article.

Standardization of all R&D tax credit rates

Quebec has several kinds of R&D credits, including credits for

- eligible R&D salaries paid in the tax year,²
- pre-competitive research in private partnerships,
- university research or research carried out by a public research centre or research consortium and
- credits relating to contributions and rights paid to a research consortium.

The credit rate for eligible R&D salaries differs from the rate applicable to the other types of credits.³ Effective for fiscal years beginning on or after December 3, 2014, the tax credit rates

¹ Except for expenditures incurred under a research contract or partnership agreement entered into before December 3, 2014.

² For corporations carrying on business in Canada that perform or have someone else perform eligible R&D work in Quebec.

³ The other credits have a rate equal to 28 percent for contracts entered into after June 3, 2014 (35 percent for contracts entered into before June 4, 2014).

applicable to R&D salaries will apply to all of the other types of R&D credits as well. Therefore, all of the R&D credits will be subject to a base rate of 14 percent.⁴ This rate is increased to 30 percent on the first \$3 million⁵ of eligible expenditures per year for Canadian-controlled corporations whose assets do not exceed \$50 million. For assets between \$50 million and \$75 million, the 30 percent rate is ground down linearly to the 14 percent base rate. The base rate of 14 percent⁶ is applicable to eligible expenditures in excess of \$3 million and to corporations that are not Canadian controlled, as well as to individuals.

If you carry on a business in Quebec and believe that you may be impacted by these changes, please contact your Grant Thornton LLP adviser for further details and assistance, or contact one of the following R&D advisers:

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⁴ Credit rate is applicable only to qualified expenditures above the new minimum exclusion thresholds. Where a corporation is eligible for more than one type of R&D credit, the minimum exclusion thresholds will be pro-rated for each of the credits based on the expenditures otherwise eligible for the a given credit.

⁵ Ibid.

⁶ Ibid.

Appendix

Amount of excluded expenditures for the application of Quebec R&D tax credits⁷

Assets (\$ millions)	Exclusion threshold amount (\$)	Tax credit rate ^{8, 9} (%)	Decrease in tax credit amount (\$)
50 or less	50,000	30.0	15,000
55	85,000	26.8	22,780
60	120,000	23.6	28,320
62.5	137,500	22.0	30,250
65	155,000	20.4	31,620
70	190,000	17.2	32,680
75 or more	225,000	14.0	31,500

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⁷ Applicable to fiscal years beginning after December 2, 2014, except for expenditures incurred under a research contract or partnership entered into before December 3, 2014.

⁸ For salaries and wages incurred after June 4, 2014 or with respect to expenditures incurred under a research contract entered into after June 3, 2014. Also, for research contracts relating to a private partnership or university research project entered into after December 2, 2014, or for fiscal years beginning after December 2, 2014 in the case of contributions or rights paid into a research consortium.

⁹ Rates apply to Canadian-controlled companies for the first \$3 million in qualified expenditures above the exclusion threshold. Otherwise, the base rate of 14 percent applies.