

Introduction of a refundable tax credit for the integration of Information Technologies in manufacturing SMEs

October 15, 2013

In brief

The objective of this new program from the Quebec Government is to support Quebec manufacturing companies that want to invest in technology and integrate IT in their business processes by offering a refundable tax credit pertaining to expenditures on qualified management software package.

In detail

For this new tax credit the qualified corporations and qualified partnerships must meet the following requirements:

- They have an establishment in Quebec and carry on a business there;
- They have a proportion of manufacturing or processing activity (PMPA), for the taxation year, which exceeds 50%;
- They are not:
 - Tax-Exempt Corporations;
 - Crown corporations or wholly-controlled subsidiaries of such corporations;

- Aluminum producing corporations;
- Oil refining corporations.

Eligible expenditures

Eligible expenditures consist of expenditures relating to the lease or acquisition of rights to use a management software package or an open-source management software package that mainly enables management of:

- The operational processes of a business by integrating all of the functions of the business;
- The interactions of a business with its customers through multiple interconnected communications channels;

- A network of businesses involved in the production of a product or service required by the final customer to cover all movements of information, from the source to the point of consumption;
- The delivery of services relating to the development, integration (installation and implementation), reconfiguration and evolution of the software package;
- The delivery of services required to support and train the personnel of the business and resolve bugs in relation to the integration of the software package;

- The purchase, lease or rights of use of general-purpose electronic data processing equipment and systems software for that equipment and ancillary data processing equipment, as well as the application software required in the course of the integration of the software package in the business.

A certificate must be obtained from Investissement Québec with respect to the IT integration contract

- A qualified corporation or qualified partnership must obtain a certificate from *Investissement Québec* (IQ) confirming that a contract qualifies as a qualified IT integration contract prior to the finalization of said contract. However, IQ may accept in circumstances it deems reasonable, that a corporation or partnership submit a request for certification of an IT integration contract after such contract is entered into.
- Each IT integration contract must have its own certificate issuance from IQ.
- A preliminary analysis as part of an assessment process must be completed in order to set out a plan describing the company's needs.
- An IT integration contract must be entered into with a person at arm's length with the corporation or partnership: this person must undertake to supply a qualified management software package.

Rate of the tax credit

The rate of the tax credit is 25%:

- The rate of 25% applies where the paid-up capital of the corporation, for such year, does not exceed \$15 million.

- This rate will be reduced linearly and will reach zero where the paid-up capital of the qualified corporation, for such year, is \$20 million or more.
- A qualified corporation whose paid-up capital reaches \$20 million or more, for a taxation year will not be entitled to receive the tax credit.
- The paid-up capital of a qualified corporation, for the taxation year, will be determined by taking into account the paid-up capital of corporations with which the corporation is associated in such taxation year.

The credit is calculated in the following manner:

- 80% of expenses pertaining to an eligible IT integration contract are eligible, up to a maximum amount of \$250,000 which yields a tax credit cap of \$62,500.
- The refundable tax is calculated as the lesser of the following two results:
 - the product obtained by multiplying the total expenses of the qualified corporation for the taxation year, by the rate of the tax credit applicable to that given year;
 - the product obtained by multiplying the balance of its cumulative cap, for the taxation year, by the rate of the tax credit applicable to that given year.
- Balance of cumulative cap: corresponds to the amount by which \$250,000 exceeds the total expenditures relating to the supply of a qualified management software package in regards to which the qualified corporation

received the refundable tax credit pertaining to the integration of information technologies in manufacturing SMEs for a prior taxation year.

Example: A qualified corporation with \$10 million dollars in paid-up capital incurs \$200,000 for taxation year 1 and \$125,000 the following year for eligible expenses relating to an eligible IT integration contract. The credit calculation is based on the total of \$260,000 in eligible expenditures (\$200,000 + \$125,000) with 80% of those costs taken into consideration for the credit calculation. However, in this case, the cumulative cap has been reached and the tax credit rate will therefore apply to the latter and result in \$62,500 of refundable tax credit.

Application date

These changes are applicable to expenses incurred after October 7, 2013, but before January 1, 2018.

Other points

- The person that makes the supply of a qualified management software package may nonetheless receive the refundable tax credit for the development of e-business provided the conditions applicable to this tax credit are otherwise satisfied.
- Expenditures giving rise to tax credit for investment tax credits regarding manufacturing and processing equipment are excluded.

Let's talk

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