

## **MAJOR EMPLOYMENT-GENERATING PROJECTS**

### **Refundable Tax Credit for Major Employment-Generating Projects**

To consolidate the development of information technologies throughout Québec while encouraging companies to locate and expand here, a refundable tax credit was introduced for major employment-generating projects in this sector.

Companies in the information technology sector contribute to the creation of quality jobs, often filled by young graduates who have recently joined the labour market. In a context of keen international competition, it is important to maintain employment in this promising sector, to offer opportunities for future workers in this field and limit the exodus of skilled workers.

#### **Nature of the Tax Assistance**

Generally speaking, the tax assistance consists of a refundable tax credit equal to 25% of eligible salaries incurred by an eligible corporation as of January 1, 2005 and paid to eligible employees assigned to carry out an eligible contract. An eligible corporation may claim this tax credit regarding such salaries incurred, in relation to such contract, until December 31, 2016.

#### **Eligible Corporation**

Any corporation, other than an excluded corporation, which, during a given taxation year, carries on a business in Québec whose activities carried out in the course of an eligible contract, are encompassed within the information technology sector, can claim for such year, under certain conditions, the refundable tax credit for major employment-generating projects.

An excluded corporation, for a taxation year, means:

- a corporation that is tax-exempt for the year;
- a Crown corporation or a wholly-controlled subsidiary of such a corporation.

To do so, however, such a corporation must obtain an initial eligibility attestation from Investissement Québec confirming that it operates in the information technology sector and that, according to Investissement Québec, it is reasonable to expect that carrying out the eligible contract concluded by the corporation will create at least 150 eligible jobs within the 24 months following either December 31, 2008 or the date the activities covered by the contract begin to be carried out, whichever comes first.

## **Creation of at Least 150 Eligible Jobs**

Investissement Québec must determine whether it is reasonable to expect that execution of the eligible contract will result in the creation of at least 150 jobs within the 24 months following either December 31, 2008 or the date the activities covered by the eligible contract begin to be carried out, whichever comes first.

In evaluating whether this eligibility criterion is fulfilled, Investissement Québec will take the following elements into account:

- The corporation's history;
- Nature of the services rendered and the project's place within the industry;
- Volume and value of services;
- Calendar for delivery of services and creation of jobs;
- Description of jobs;
- Guarantee of minimum volume;
- Availability of resources;
- Progress of projects and existing or conditional commitments;
- Risk factors;
- Any other criterion deemed relevant under the circumstances.

Evaluation of the corporation's project is based on the initial analysis of the application, which takes into account the content of the contract and other relevant elements external to it.

## **Maintenance of 150 Eligible Jobs**

An eligible corporation must not only attain the minimum level of job creation but must also maintain this level for a period determined by Investissement Québec. Taking into account criteria such as the term of the eligible contract and the gradual winding down of activities related to executing such contract, Investissement Québec grants eligible corporations a phasing out period that can vary from 6 to 12 months, depending on the term of the eligible contract and the specific circumstances in respect of the activities provided for in the contract. During this period, the eligible corporation may maintain a lower number of jobs than the minimum level of job creation without losing the entitlement to its tax credit for this period.

If the eligible contract is for a term of more than 4 years, the phasing out period allowed may be up to 12 months. If the contract term is 4 years or less, the permitted phasing out period may be up to 6 months. This means that in addition to the initial period of 24 months, the corporation has a further 6 to 12 months prior to the end of its contract in which to benefit from the tax credit without having to maintain a minimum level of jobs.

In the event that an eligible corporation is unable to maintain the minimum level of job creation for the whole maintenance period applicable to it for an eligible contract, Investissement Québec will cease to certify the eligible employees for any part of the maintenance period for which the minimum level of job creation is not maintained. Should the corporation subsequently regain its minimum job creation level, Investissement Québec will continue to certify eligible employees for the subsequent portions of the period during which the maintenance conditions are fulfilled.

## **Eligible Contract**

An eligible contract means a contract concluded by an eligible corporation and for which Investissement Québec has issued an attestation certifying that activities included under one of the following three eligible sections are carried out as part of the contract:

E-business includes activities involving the exchange and distribution of information, supply of services and e-commerce. E-commerce consists in the sale and purchase of products and services on the Internet **Section 1: Development and Supply of Products and Services Relating to E-Business**

- information technology (IT), e-business solutions and process consulting services;
- development, integration and implementation of information systems and technology infrastructures;
- design and development of e-business solutions;
- development of security services relating to e-commerce activities;
- development of distribution software;
- development of electronic banking relating to e-commerce activities.

➤ **Section 2: Operation of an E-Business Solution**

- processing of electronic transactions by means of a transactional Web site;
- management, operation, maintenance and development of systems, applications and infrastructures, i.e.:
  1. management of processing centres relating to e-business;
  2. remote management of operations centres;
  3. maintenance and development of e-business solutions and applications;
  4. management of local or wide-area networks;
  5. technology outsourcing;
  6. business processes:
    - a) outsourcing of business processes relating to the operation of an e-business solution (administrative support–back office);
    - b) business processes associated with the internal operation of an e-business solution (internal administrative support) in cases where:
      - i. they involve the centralization, consolidation and coordination of the corporation's back office activities in the same place;
      - ii. the centralization of the corporation's business processes enables service to more than one of its establishments in Québec and elsewhere.

➤ **Section 3: Operation of a Customer Contact Centre**

- management of relations with existing clientele stemming from e-commerce activities, when the products sold are related to information technologies;
- technical support for companies and clients (help desk) related to use of an e-business solution or a product allowing its use<sup>1</sup>;
- client support directly related to use of an e-business solution.

The company must also meet the following conditions:

- with the exception of companies offering customer relations management with existing clientele stemming from e-commerce activities, the company conducts activities consisting mainly of incoming calls;
- the company conducts activities in a specialized field and its employees have specialized training;
- the company uses a technological environment composed of different media, allowing the convergence of new technologies.

---

<sup>1</sup> Only activities related to the technical aspect of the product are potentially eligible. Note that management of subscriptions to cellular telephone service (changing plans, for example) or warranties on a product enabling the use of an e-business solution do not constitute eligible activities.

## **Excluded Activities**

Since eligible activities refer to development activities and certain types of activities relating to the operation of an e-business solution or the operation of a customer call centre, the following activities are excluded:

- installation, repair and maintenance of equipment and hardware;
- manufacturing of machines, instruments, components, parts, hardware or equipment;
- assembly of parts or components (e.g.: assembly of television receivers, computer monitors, calculators or cash registers);
- traditional services transmitting audio or visual signals via television broadcasting, telephony, cable television, satellites or other cellular networks that do not allow an e-business solution to be used;
- the operation of satellites, studios or television or radio networks (e.g.: studio owner) ;
- film (including postproduction) and audiovisual production (including television programs) not related to a comprehensive e-business solution;
- conference calling services;
- Internet access suppliers, with the exception of corporations that offer this service in the course of supplying an e-business solution;
- book or newspaper publishing or record production; (ex.: commercialization, promotion and financing of applications);
- schools and organizations specializing in training;
- telemarketing activities;
- activities relating to surveys;
- business processes relating to the activities listed below:
  - human resources management;
  - credit card processing;
  - any activity that does not refer to an e-business activity or the management, maintenance and development of centralized and computerized infrastructures and systems.

These activities are given for illustration purposes. This list is not exhaustive.

## **Continuation of Business**

Generally speaking, in order to benefit from the tax credit for major employment-generating projects, the eligible corporation must itself have concluded a contract for which an attestation has been issued by Investissement Québec. However, under certain continuation rules, a corporation continuing the operations of a business whose activities are part of an eligible contract concluded by another corporation, may be recognized as an eligible corporation for application of the tax credit if it also fulfils the other conditions, among others the creation and maintenance of jobs. The corporation continuing to operate the business of the corporation that concluded the eligible contract does not have to be an associated company in order to be recognized as an eligible corporation for the purposes of the tax credit.

## **Other Considerations**

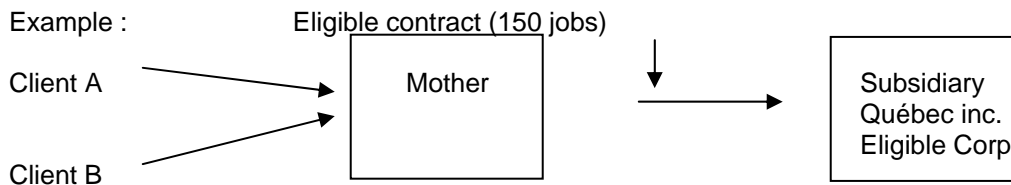
To be eligible, a contract must be concluded after December 31, 2004 and before January 1, 2008. However, a contract concluded during this period is not eligible if the majority of the activities covered by such contract have previously given rise to tax assistance administered in part by Investissement Québec. Investissement Québec is responsible for determining whether the majority of the activities covered by a contract have previously given rise to such tax assistance. In determining this,

Investissement Québec may consider both the activities and the number of employees whose functions were devoted to these activities and for whom eligibility attestations have previously been issued.

For example, if an eligible corporation signs an eligible contract and some of the activities covered by the contract have already given rise to previous assistance, Investissement Québec has to determine, based on all the criteria, whether the contract is eligible. One of the criteria involves assessing whether the number of employees covered by tax assistance prior to the starting date of the 24-month period was less than 50% of all the employees assigned to these activities 24 months later. This means that Investissement Québec will verify whether in the 24 months following December 31, 2008 or the starting date of activities related to the eligible contract, whichever comes first, the corporation eligible for this fiscal measure has more than doubled the number of employees carrying out these activities and who were the object of an eligibility certificate with respect to another fiscal measure partly administered by Investissement Québec (e.g. refundable tax credit for e-business activities).

In such a case, in order to retain its status as an eligible corporation until the end of its eligible contract<sup>2</sup>, the corporation must maintain a number of jobs equal to twice the number of employees who were the object of a previous fiscal measure plus one, even if this exceeds the minimum job creation level of 150 jobs. Should the eligible corporation fail to attain the required number of jobs before the end of the 24-month period applicable to it for an eligible contract, Investissement Québec will revoke the eligibility certificates issued to the corporation.

Furthermore, a contract concluded between an eligible corporation and a person with whom it is not at arm's length may qualify as an eligible contract. However, a subcontract concluded between an eligible corporation and a person with whom it is not at arm's length may qualify as an eligible contract if the eligible corporation can demonstrate to Investissement Québec that such a contract relates to services ultimately supplied to a person with whom it deals at arm's length and to a business carried on by the latter person outside Québec. In addition, the activities subcontracted to a person with whom it does not deal at arm's length must be activities that were not already carried out in Québec. The criterion of 150 employees working to carry out the contract will apply to the subcontract concluded between the eligible corporation and the person with whom it is not at arm's length and not to the initial contract concluded between the latter and the international customer.



Note: Clients A and B outside Québec, at arm's length with the mother and/or the subsidiary.

## Eligible Employee

Eligible employee means an employee of an establishment in Québec of the eligible corporation for which Investissement Québec has issued an eligibility certificate, for a given taxation year, certifying that the following conditions are satisfied:

- the employee holds, in the course of carrying out the eligible contract, a full-time job, with a minimum of 26 hours of work a week, for a stipulated minimum of 40 weeks;
- at least 75% of his duties are devoted to carrying out, supervising or directly supporting activities carried out in the course of the eligible contract;
- the employee is not a specified shareholder of the eligible corporation.

---

<sup>2</sup> Maximum December 31, 2016

Moreover, administrative tasks such as management of the operations, accounting, finance, legal affairs, public relations, communications, prospecting for mandates as well as human and physical resources management are not considered tasks relating to the execution of an activity carried out in the course of an eligible contract.

Where an eligible corporation carries out more than one eligible contract, the duties of some employees may be devoted to supporting the activities carried out in the course of a number of contracts, and the proportion of such duties may be less than 75% for each such contract.

In that case, such a corporation may still claim the tax credit regarding eligible salaries incurred regarding such employees. Thus, an employee may be eligible, in relation to each of the eligible contracts carried out by his employer, if at least 75% of his duties are devoted to carrying out, supervising or directly supporting the activities carried out in the course of such eligible contracts, considered as a whole. However, for the purposes of the minimum job-creation threshold, such an employee shall be considered as working to carry out a single eligible contract.

In addition, although Investissement Québec cannot issue an eligibility certificate with regard to an employee of an eligible corporation, for a given period, if it has already issued, for such period, an eligibility certificate regarding the same employee under another refundable tax credit or the refundable credit for employer contributions to the HSF for corporations located in E-Commerce Place, Investissement Québec may consider such an employee in applying the minimum job-creation threshold in Québec for the purposes of the refundable tax credit for major employment-generating projects.

For greater clarity, Investissement Québec may issue an eligibility certificate for a portion of a taxation year of an eligible corporation, in which case the eligibility certificate must indicate the employee's eligibility period.

Lastly, for a given taxation year, an eligible corporation may claim a tax credit regarding salaries paid to a maximum of 2 000 eligible employees. However, where an eligible corporation is associated with one or more eligible corporations at any time during such given year, the limit on the number of eligible employees will be established on a consolidated basis, i.e. by including the eligibility certificates issued regarding the eligible employees of each eligible corporation that is part of such a group. For greater clarity, the associated eligible corporations must divide the limit of 2 000 eligibility certificates among themselves and file an agreement to that effect with Revenu Québec, according to the usual rules.

## **Eligible Salaries**

Salaries calculated according to the *Taxation Act* and incurred by the eligible corporation, in a given year, regarding its eligible employees for such year.

Moreover, the eligible salary, regarding an eligible employee, is limited to \$60 000, calculated on an annual basis and according to the number of days of the taxation year of the eligible corporation during which the employee qualifies as an eligible employee. Accordingly, the amount of the tax credit, for a taxation year, may not exceed \$15 000 per eligible employee, on an annual basis.

Lastly, the eligible corporation must have paid the eligible salaries at the time of claiming the tax credit from Revenu Québec.

## **Refundable Tax Credit Eligibility Period**

The refundable tax credit regarding major employment-generating projects can be granted to an eligible corporation for eligible salaries it incurs and pays its eligible employees as of the starting date of the activities in respect of the eligible contract, provided this date is after December 31, 2004. The corporation's eligibility period for the said credit normally ends when the activities provided for in the contract end, without exceeding December 31, 2016, when the eligibility criteria are met.

## **Deadline for Certification Applications**

For any eligible contract, the eligible corporation must file its application for certification **no later than March 31, 2008**.

## **Payment of Tax Credits**

Subject to subsequent recovery in the event of failure to satisfy the eligibility conditions, the earned tax credit may be claimed by a corporation in its annual tax return before achieving the minimum job-creation threshold, provided it obtains an initial certification.

## **Other Application Details**

The refundable tax credit regarding major employment-generating projects may be applied against the instalment payments of an eligible corporation in relation to income tax and the tax on capital, according to the usual rules.

Moreover, Investissement Québec may revoke an eligibility certificate issued to an eligible corporation regarding an eligible contract where it is reasonable for Investissement Québec to believe that the eligible corporation would not have obtained the eligibility certificate had it its application disclosed the true facts. Investissement Québec shall then send a copy of the revoked eligibility certificate of the eligible corporation to Revenu Québec.

## **Nature of the Tax Credit and Claim**

This tax credit is refundable. When the credit exceeds the tax payable, the corporation can obtain a refund of such excess. The tax credit is calculated and claimed at the end of the taxation year when filing the corporation's tax return. In addition, the tax credit obtained is taxable.

An eligible corporation may claim, in its annual tax return, the refundable tax credit for salaries paid to eligible employees.

However, to receive this tax credit, for a given taxation year, an eligible corporation must enclose the following documents with its tax return for such year:

- a form prescribed by Revenu Québec,
- the eligibility certificate issued by Investissement Québec to the eligible corporation and regarding its eligible contract,
- the annual eligibility certificate issued in relation to the eligible employees.

Annual certificate applications are filed using the forms available on the Investissement Québec website. They can also be obtained from the Department of Fiscal Measures of Investissement Québec.

Lastly, in order to ensure reception of your tax credit, your annual application for an eligibility certificate must be submitted to Investissement Québec before the end of the fifteenth (15th) month following the corporation's fiscal year end. If you submit your annual application for an eligibility certificate after this date but before the end of the eighteenth (18th) month following the corporation's fiscal year end, Revenu Québec may extend the certificate issuance period, but only under exceptional circumstances. In the event the application is submitted to Investissement Québec after the 18th month following the corporation's fiscal year end, no extension will be granted. To be considered eligible by Investissement Québec, the annual application for an eligibility certificate must be duly signed, completed, and accompanied by all documents requested in the application form, including a proxy, if required.

## **Special Tax**

Should the eligible salaries regarding which a tax credit was granted be repaid to an eligible corporation, in whole or in part, the tax credit granted regarding the amount so repaid will be recovered by means of a special tax.

Similarly, should an eligible corporation fail to achieve the minimum threshold of 150 eligible jobs before the period of 24 months applicable to it for an eligible contract, the eligibility certificates issued to it will be revoked by Investissement Québec and the tax credits previously granted, if any, will be recovered by means of a special tax.

## **Interaction with Other Tax Credits, Assistance and Benefits**

The tax legislation contains rules designed to prevent the accumulation of tax assistance regarding an expenditure that may give rise to more than one tax credit, for more than one taxpayer or for the same taxpayer. For greater clarity, these rules also apply to corporations eligible for the refundable tax credit regarding major employment-generating projects.

A similar rule applies to ensure that, where the activities of an eligible corporation are covered both by this tax credit and by a tax holiday, the activities carried out in the course of an eligible contract that may give rise to this tax credit cannot constitute eligible activities for the purposes of such a tax holiday. As a corollary, the tax holiday granted to an employee and arising from the eligibility of a corporation for such a tax holiday also cannot be granted.

Moreover, the amount of salaries incurred by an eligible corporation, during a given taxation year, must be reduced by the amount of any government assistance, any non-government assistance and any benefit or advantage attributable to such salaries, according to the usual rules.

## **Fee Schedule**

Since September 1, 2004, Investissement Québec has charged fees for the analysis of an eligibility application regarding the fiscal measures it administers. For more information, contact an Investissement Québec adviser or consult the [rate schedule](#) available on this Web site.

*This document is a summary of the fiscal policy drawn from various publications of the ministère des Finances du Québec and the Taxation Act. Other conditions may apply in certain cases.*

*Although it may refer to certain provisions, in particular to the Taxation Act, this document is not an interpretation by Investissement Québec of the legislative provisions pertaining to the fiscal measure.*

January 2008