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## Changes to Québec Provincial R&D Tax Credits

### New Minimum Claim Threshold | Accelerated Benefits Eliminated on Some Transaction Types

In Canada R&D tax credits are provided at both the national (Canada) level and by the individual provinces (states). The total amount of R&D tax credits receivable are therefore a combination of the two amounts. In most cases the provincial level tax credit is automatically triggered by eligibility at federal level and historically has applied to the same expenditures. For the five out of ten Canadian provinces that have opted for “harmonization”, all administration of tax credits is handled by the Canada Revenue Agency (CRA). In other provinces the eligibility of scientific assessment is made by the CRA and the provincial tax authority handles the financial side of the transaction.

On December 2, 2014 Québec’s Finance Minister Carlos Leitão announced two changes to that province’s system of R&D tax credits: 1) a minimum spend threshold, and 2) standardization of benefit rates across different types of transactions.

Note that the changes discussed in this bulletin apply only to the Québec provincial tax credits and therefore apply only to companies who pay tax to Québec. Companies who do not pay tax in Québec are not affected.

Of these two changes, the first – minimum threshold – is likely to have the most significant impact on industry as it effectively cuts the amount of provincial R&D tax credit dollars receivable by up to \$15K (for small companies eligible for 30%) and \$30K (for large companies eligible for 14%). That said, some of that loss will be picked up by an increase at the federal level where the expenditures attracting the Canada benefit will see less reduction by the now lowered provincial credit.

According to the Economic Update document approximately 40% of the total number of claims filed entail expenditures under \$50,000. It is expected that the minimum threshold will eliminate the growing number of small claims that are potentially abusive and costly to assess in relation to the resulting macro-economic benefit. It would not be surprising to see similar measures introduced by other provinces and perhaps even by Canada at the federal level in the near future.

Full details of these two changes are described on the following page.

## **CHANGE 1 – MINIMUM THRESHOLD**

Previously any amount spent on eligible R&D activity attracted the Québec R&D Tax Credit. Now the amount of R&D expenditure eligible to attract Québec R&D Tax Credits is calculated as:

$$\text{\$Eligible} = \text{Actual \$Spent} \text{ MINUS } \text{\$Threshold}$$

where  $\text{\$Threshold}$  is a linear sliding scale amount ranging from \$50K to \$225K depending on company size as determined by assets.

The limits of the sliding scale in relation to company size are:

$$\text{\$50K for assets less than or equal to \$50M and \$225K for assets greater than \$75M}$$

Note the Actual  $\text{\$Spent}$  is subject to two factors: 1) Eligibility of the R&D work for which the expenditures were incurred. 2) Other limitations on amount of the expenditure that qualifies to attract the credit, e.g. 100% for salaries, 80% paid to a university, and 50% of paid to contractors.

For companies with assets between \$50M and \$75M, this scaling is such that for each \$1.00 of asset above \$50M,  $\text{\$Threshold}$  increases by \$0.007.

For a full description of “Threshold” see section 2.1.1 on pages D.37-39 of the Québec Provincial Government’s Fall 2014 Economic Update here:

[http://scitax.com/pdf/R\\_D\\_Pages\\_from\\_QUEBEC\\_GOV\\_FALL\\_FINANCIAL\\_UPDATE\\_2-Dec-2014.pdf](http://scitax.com/pdf/R_D_Pages_from_QUEBEC_GOV_FALL_FINANCIAL_UPDATE_2-Dec-2014.pdf)

## **CHANGE 2 – STANDARDIZATION OF BENEFIT RATES**

Previously Québec offered higher R&D tax credit benefit rates in three situations:

- 1) If the company claiming the R&D tax credit is a “small corporation”.
- 2) If the R&D was purchased from a university.
- 3) If the company claiming the R&D tax credit is a member of a partnership or consortium.

Now the eligibility for a higher benefit rate is determined only by 1) the size of the corporation; criteria 2) and 3) are eliminated. “Small” corporations get a benefit rate of 30% on all expenditures whereas all others get between 30% and 14%.

“Small” corporation is defined as a CCPC (Canadian Controlled Private Corporation) with assets \$50M or less. For CCPCs with assets between \$50M and \$75M the 30% rate is ground down to 14% on a sliding scale at a rate of 0.00000064% for each \$1.00 of asset above \$50M.

For a full description of “Standardization” see section 2.1.2 on pages D.39-40 of the Québec Provincial Government’s Fall 2014 Economic Update here:

[http://scitax.com/pdf/R\\_D\\_Pages\\_from\\_QUEBEC\\_GOV\\_FALL\\_FINANCIAL\\_UPDATE\\_2-Dec-2014.pdf](http://scitax.com/pdf/R_D_Pages_from_QUEBEC_GOV_FALL_FINANCIAL_UPDATE_2-Dec-2014.pdf)

## **LEARN MORE**

R&D pages excerpted from Québec Provincial Government's Fall 2014 economic update 2-Dec-2014:

[http://scitax.com/pdf/R\\_D\\_Pages\\_from\\_QUEBEC\\_GOV\\_FALL\\_FINANCIAL\\_UPDATE\\_2-Dec-2014.pdf](http://scitax.com/pdf/R_D_Pages_from_QUEBEC_GOV_FALL_FINANCIAL_UPDATE_2-Dec-2014.pdf)

The complete English language text of the Québec Provincial Government's Fall 2014 economic update 2-Dec-2014:

[http://www.finances.gouv.qc.ca/documents/Autres/en/AUTEN\\_updateFall2014.pdf](http://www.finances.gouv.qc.ca/documents/Autres/en/AUTEN_updateFall2014.pdf)

Measures concerning scientific research and experimental development (R&D):

[http://www.revenuquebec.ca/en/salle-de-presse/nouvelles-fiscales/archives/nf2007/in-136\\_76/mesures\\_r\\_d.aspx](http://www.revenuquebec.ca/en/salle-de-presse/nouvelles-fiscales/archives/nf2007/in-136_76/mesures_r_d.aspx)

Revenu Québec brochure *Tax Assistance for Scientific Research and Experimental Development* provides an overview of various tax measures relating to R&D in Québec. It contains a variety of information on deducting R&D expenses and claiming tax credits, as well as on the information and forms that must be provided to Revenu Québec in support of your claims:

[http://www.revenuquebec.ca/documents/en/publications/in/in-109-v\(2014-04\).pdf](http://www.revenuquebec.ca/documents/en/publications/in/in-109-v(2014-04).pdf)

Canada Revenue Agency list of Provincial and Territorial R&D Tax Credits:

<http://www.cra-arc.gc.ca/txcrdt/sred-rsde/prv-crds-eng.html>

Description of federal provincial harmonization and list of harmonized provinces:

[http://en.wikipedia.org/wiki/Harmonized\\_Sales\\_Tax](http://en.wikipedia.org/wiki/Harmonized_Sales_Tax)

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## About Scitax

Scitax Advisory Partners LP is a Canadian professional services firm with specialist expertise in all aspects of planning, preparing and defending Scientific Research and Experimental Development (SR&ED) tax credit claims.

We offer a multi-discipline team of engineers, chartered accountants and tax lawyers to ensure that your SR&ED issues are covered from every angle.

While we normally work in concert with our client's existing accountants, our affiliated tax-dedicated chartered accounting firm – Cadesky and Associates LLP – is an expert resource for advice on any taxation matter such as may arise either during the planning and preparation of your claim or while dealing with CRA afterwards.

In addition to planning and preparing new claims, we also engage on claims that have been challenged by CRA auditors or that have received negative assessments for either scientific or expenditure eligibility. If a satisfactory settlement cannot be achieved with CRA at the local office level, we will appeal your assessment through either Notice of Objection or Tax Court of Canada procedures with the assistance of our affiliated firm of tax lawyers.



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